ADVANCE, INDIA!

". . . of Thee we do beg assistance. Direct us in the right way" . . .

(FOR PRESS OPINIONS, SEE END.)

ADVANCE, INDIA!

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"*It is our earnest desire to stimulate the peaceful industry of India, to promote works of public utility and improvement, and to administer its government for the benefit of all our subjects resident therein. In their prosperity will be our strength, in their contentment our security; and in their gratitude our best reward. And may the God of all power grant to us and to those in authority under us, strength to carry out these our wishes for the good of our people.*"—Extract from the Proclamation of Queen Victoria, November 1, 1858.

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PREFACE

THE first part of this book has been written mainly for English readers; the seven chapters that follow mainly for Indians. These chapters were contributed in the first instance in the form of special articles to leading newspapers and reviews in India, and are now reproduced in book form at the request of many correspondents, and with the kind permission of the Editors of the *Times of India*, the *Pioneer*, *Capital*, the *Sind Gazette*, the *Indian Review*, and the *Hindustan Review*. Some parts of the articles have been re-written and enlarged, whilst extra paragraphs dealing with the proposal to establish a State Bank in India have been introduced in Chapter VII.

The third part of the book gives the text of the Royal Commission on Indian

Finance and Currency issued under the King-Emperor's orders, and also the text of a Note collecting in convenient form the author's oft-repeated criticisms of the recent financial activities of the India Office. This Note, which deals fully with all the matters that have been referred to the Commission, was placed before the Commission in June, 1913.

The fourth part or conclusion of the book explains briefly why India's advance means not only increased strength and prestige for India, but also increased strength and prestige for the whole Empire.

M. DE P. WEBB.

6th July, 1913.

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PART I

INTRODUCTION

ADVANCE, INDIA!

CHAPTER I

THE MIRACLE OF THE GOVERNMENT OF INDIA

"... One of the most valuable gifts which England has bestowed upon India is unselfish personal effort for the public weal—the example of spotless service for the good of all. . . ."

DR. GEORG. WEGENER (Berlin).

THE miracle of the government of India receives but little attention from the majority of the peoples of the United Kingdom, or, indeed, of any other division of the Empire. And yet, it *is* a miracle—315,000,000 of the human race, guided, protected and carried forward by the agency of a few thousand Britons. The total European population of India is under 200,000, of whom 75,000 are soldiers. Of the remainder, by far the larger portion are engaged in commercial pursuits. Only a small minority, therefore, are Government Officials. Upon these few rests the responsibility of administering a Continent the size of Europe minus Russia. The miracle is

performed silently, smoothly and with a success that succeeding generations will study with amazement and admiration.

How is it done? Not by the exercise of physical force—that much is quite obvious. Let no one imagine for a single moment that the 315,000,000 are suppressed, or kept in awe by a contemplation of the 200,000, or even of the 75,000. Only a few weeks ago a speech was delivered in England wherein it was asserted (by one who ought to have known better), and assumed to be a matter of common knowledge, that the "natives" of India were "kept in order" by the presence of the 75,000 men who compose the European army in India. This is a complete and lamentable misapprehension of fact. As well might it be said that the natives of England, Scotland and Ireland are kept in order by their dimunitive standing army. Such a statement would only provoke derision in England (or Scotland or Ireland). In the case of India, however, among the cultivated classes (who, by the way, are as sensitive to matters affecting their honour as are cultivated Englishmen), the assertion that Indians are only restrained from the perpetration of all kinds of evil deeds by the presence of European soldiers, is as offensive, uncalled for and ridiculous as would be the statement by a

prominent Indian in a public speech in India, that English people at Home are only kept on their best behaviour by fear of the policemen who perambulate their streets. Such ideas are preposterous, whether held by Indians, or uttered by Englishmen.

No. Physical force does not explain the miracle of the government of India. We must search elsewhere for the underlying causes. The miracle is accomplished by the hearty co-operation of Indians themselves—by the assistance of India's own leaders and better informed classes, and with the willing acquiescence of the great masses of the Indian population. It is done by the force of example, by the exercise of sympathy, and by the active administration of justice between man and man. It is done by the display of all those qualities in which the best trained British subjects everywhere excel,—energy and persistence, physical and moral courage, good temper and self control, accuracy and efficiency, a ready recognition of other men's abilities and rights, an unfailing instinct to give and enforce fair play, and an unselfish devotion to the public good. It is done by a constant readiness and anxiety on the part of the Officers of Government freely to place the advantages of British methods, British knowledge and British experience at the

disposal of the peoples of India wherever it seems probable that such methods, knowledge and experience can be turned to practical account to the benefit of the great masses of the population. These are the chief explanations of the miracle of the government of the three hundred and fifteen millions of the great Continent of India by a few thousands of the little islands of Britain.

It may be thought by some that the qualities and actions of the governing and leading classes in India, as indicated above, are exaggerated,—that the colouring is a little too brilliant, and that Britons in India are not quite such fine creatures as here painted. Especially will this seem so to that class of stay-at-Home but critical Britons who imagine that when their kith and kin depart from the mother-land, they leave most of their good British qualities behind them. To all such doubters I would reply:—You must not forget that in the case of India (which is quite unlike every other part of the Empire), practically every leading European in the country is a picked man—from the Viceroy down to the latest arrived subordinate in commercial employ—a man specially selected in Great Britain as possessing a combination of good qualities essential for a successful career in the East. The Indian Civil Service is admittedly on all hands one of the

finest services in the world. The Indian Army—European and Indian—is unquestionably the most efficient fighting army that the British Empire at present possesses. In the Departments of Irrigation, Railways, Telegraphs and Posts, India's record of experience gained and work accomplished is inferior to none. In trade and commerce, the exports and imports of the Continent of India were, until a few years ago, more than those of all the rest of the Empire (Great Britain alone excluded) put together. Every banker, every merchant, every tradesman who contributed to these results, had been carefully chosen, and sent out to India because he was thought to possess qualifications above the ordinary. Can we feel surprised in such circumstances that the European population of India exhibit in a high degree those qualities which specially distinguish the British stock in every part of the world,—qualities and activities that very largely explain the miracle of the successful administration of the Continent of India ?

Thus it comes about that the peoples of India have been accustomed to see and expect high standards of character and accomplishment on the part of the Britons who live in, and who rule the country. Indeed, a long experience of India leads to the conclusion that only so long as these

high standards are maintained can India be guided from outside. In short, we can expect to continue successfully to develop and administer our great Eastern Dependency only so long as we continue to give freely to India the best of our knowledge, experience and effort, and so long as the peoples of India as a whole benefit continuously, and in an increasing degree, by our presence and doings.

Unfortunately, these things are not always realized in the United Kingdom where statements are sometimes made and actions taken by responsible people that tend to lower British prestige in the East. With the cheapening of telegraphic communication, such matters are now often cabled to India where they are read with pain and astonishment, not only by Europeans but also by the better educated classes of our Indian citizens. In no direction has this been more noticeable than in the conduct of party government during the last five or six years wherein there has been a marked deterioration of national ideals. We have seen "log-rolling" carried to a degree that has seriously lowered the good name of the House of Commons in India. We have seen men of limited experience and deficient moral standards elevated to the position of Ministers. In particular, we have witnessed the introduction of a new system

of finance whereby the construction and passing of the Nation's Budget has been utilized as a party weapon to force into being half-baked schemes of social reform that will, whilst failing to accomplish the ends aimed at, involve Great Britain in an unmeasurable and dangerously heavy burden of additional taxation.

The disabilities, misfortunes and hardships of the poor of the United Kingdom are matters that cannot but appeal strongly to every British subject, not only in Great Britain but in every part of the Empire. These difficulties and pains will not be removed, however, by such outpourings of unbalanced sentimentality as India has heard, with pity, from the lips of Mr. Lloyd George. Nor is British character likely to be improved by crude appeals from the Chancellor of the Exchequer to the cupidity of the ignorant and lazy. India expects Great Britain's leaders to endeavour to promote those qualities of self-help—energy, persistence, efficiency, thrift and self-denial—which have made British subjects respected all the world over, and not to demoralize the proletariat by encouraging a belief that the politicians or government temporarily in power can give the people something for nothing,—"9*d.* for 4*d.*"—at the expense of imaginary millionaire Dukes and other wealthy parasites who are sup-

posed to fatten on the labour of the working classes. Suggestions of this kind from the keeper of Great Britain's Purse—hitherto regarded as a model Chancellor of the Exchequer whom all nations, India included, looked up to for guidance,—have very gravely compromised Great Britain's reputation in India.

Unfortunately, this is not the worst. In connexion with a proposed important contract with Government, India has learnt that certain Ministers of the Crown in Great Britain have not hesitated to enter upon gambling or speculative transactions that yielded to them large sums of moneys at the expense of the less well-informed members of the public. The deplorable tale of concealment and procrastination, of bluster and exposure, is fresh in the public mind and need not be here repeated. Nobody imagines for a moment that the Ministers involved were in any sense corrupt, or that they intended to sacrifice the public interests in the slightest degree; but the amazing lack of decency and understanding revealed throughout the whole business, has been little short of a national calamity. The Marconi Shares Scandal has lowered Great Britain's reputation in India more than anything that has happened in the last fifty years. How the British public can continue to accept as their Chancellor of the

Exchequer a man who spoke as Mr. Lloyd George did on July 1, 1913, at the National Liberal Club, is a matter that no cultured Indian will be able to understand, unless it be on the assumption that the standards of public life at the heart and centre of the Empire have sunk to a much lower level than those maintained in India and the East.

That there may be some grounds for this assumption Indian observers will suspect from the unfortunate way in which India's own finances have been handled in London during the last five or six years. Onlookers throughout the world have noticed the disinclination of any party politicians in the United Kingdom to tackle problems (like the inadequacy of England's gold reserves) which would bring the Government of the day into conflict with powerful monetary interests in the City of London. So, too, where the "City," or a powerful section of the "City," has for its own ends quietly opposed monetary developments in India which have been accepted and taken in hand by those responsible for the good government of India, the Secretary of State for India has not carried his defence of Indian interests to the extent of actively resisting the anti-Indian policy of some of London's leading bankers and financiers. On the contrary, during

the regime of that most autocratic of Secretaries of State, Mr. (now Viscount) Morley, the management of India's finances and currency was handed over to the practically unfettered control of a Committee run by two London bankers: with the result that India's cash balances and monetary reserves have been raided—withdrawn from India and presented to the London money market—in a way and to an extent unheard of during the whole history of Great Britain's connexion with her great Eastern Dependency. Full details of this business will be found in Part III of this book. So great was the outcry in India, against this unfair, un-British manipulation of India's moneys, that a Royal Commission was appointed on April 18, 1913, to inquire into the whole matter. The Commission is now sitting in London and taking evidence; and there can be little doubt that the recent unfortunate lapses from the high standards of monetary management that have characterized the British Government's policy in the past, will now be checked once and for all.

At the same time, the fact remains that incidents of the kinds referred to above, all tend to dull those lofty ideals on the strict observance of which the miracle of the government of India in the main depends. It is of the very first im-

portance, therefore, that a determined effort be made by every patriotic British subject, in and out of India, to stamp out at all costs any and all tendencies to backsliding. As Lord Curzon once finely said: "India is now, as ever, the great test of British character and heroism; it is therefore necessary to advance with high courage and grave self-confidence. . . ."

We *are* advancing; there is not the slightest doubt about that. Evidence of the movement forward could be drawn from a hundred quarters. One will suffice. The following extract from an Address recently delivered in Berlin before the Geographical Society of Berlin by Dr. Georg Wegener (who accompanied the Crown Prince of Germany on his recent tour through India), is of special interest in this connexion:—

> One figure alone speaks volumes. In 1800 the population of India was, in round numbers, one hundred millions; in 1900 it was three hundred millions. This colossal growth is simply the result of peace and safety to life and property which English supremacy has assured to the greater part of India during this period, a condition of things never before experienced in India—nay, a condition unknown in Europe throughout the century. The material resources of India have also been most admirably developed by the enterprise of Englishmen. It needs but to look at the shipping in the Bay of Bombay, or in the harbours of Madras and Calcutta, and at the splendidly palatial public buildings,

to be convinced of this. Or one has only to mention the vast network of railways throughout the country, which are almost as numerous as in the Mother Country, and the great system of canals which exceed those of any other country, to prove this fact. Then, again, there is the uniform legislation, which is adapted to the requirements of the different races of India, a legislation in which the natives are permitted to take an active part, and which is far better than any other known in the country in former times, although, of course, it is not free from faults, caused principally by the great variety of peoples throughout the length and breadth of India.

And the uniform coinage after European models is a fine work, as is the excellent and cheap postal and telegraph service. And there are many educational institutions, universities and schools founded and supported by the Government, but we must return to this subject later on. The laws concerning the public health are unquestionably better than any former ruler ever dreamt of, and the same may be said regarding the care taken to avoid famine.

This concerns those parts of the country immediately under British rule. And it must not be forgotten that the influence exercised over the native princes is not merely that of example, but often one of more or less gentle pressure.

And lastly, one of the most valuable gifts which England has bestowed upon India, is unselfish personal effort for the public weal,—the example of spotless service for the good of all.

Whilst we are giving our best to India in a dozen departments of human activity, there is one very important direction in which—owing

to the short-sighted obstruction of certain powerful interests in London—we have not yet done our duty,—and that is with regard to India's monetary system. We are strenuously striving to carry forward the economic development of India, but we have so far omitted to equip India with the best possible monetary system such as every great division of the Empire already enjoys. Without a monetary system of this kind, economic developments in India are liable to be, and are, checked in one most important respect. The object of this book is to explain in simple language why India should at once be given the best possible metallic currency and the best possible monetary system that British experience can suggest. The arguments advanced are in some respects unorthodox, and in one or two instances, novel. They are, however, the outcome of theoretical study and a personal observation of monetary matters in almost every division of the Empire extending over many years; and, as such, are advanced with the confidence of practical experience.

PART II

'MONEY POWER FOR INDIA

CHAPTER II

GOLD OR SILVER MONEY—WHICH IS BETTER?

INDIA is a very rich and powerful country. Indeed, next to the United Kingdom, India is by far the richest and, as at present organized, most powerful Division of the British Empire. With a population of over 315 millions—industrious, peaceful, and thrifty people, working on a well-watered and fertile soil, amidst climatic conditions highly stimulating to vegetable and animal life—it is not surprising that India's trade is far greater than that of any other portion of the Empire—except the United Kingdom. In fact, there can be little doubt that India's total trade—internal as well as external—is considerably greater than that of all the Self-Governing Dominions of the British Empire put together.

Those who wish well of India—especially those who are born or live in India and appreciate her many attractions, and who are anxious to help India towards a position in the Empire's

councils appropriate to her size, wealth, and importance,—will desire to see this great country equipped with, and in the enjoyment of, the best of everything socially, economically, and politically. And in "the best of everything" must of course be included the best Monetary System and the best Monetary Tools.

How are we to decide which is the best system and what are the best tools for India in this connection ? Two courses are open to us—to experiment for ourselves, or to take advantage of other nations' experiments. Nobody would suggest the former course, when, at no risk or expense and with very little trouble, we are able to reap the benefit of the latter. Let us look around then, and try and decide by an observation of what the other chief Divisions of the Empire and leading nations of the world have done with regard to *their* monetary tools and systems, which tools and which system would be best for a rich, powerful, and rapidly advancing country like India.

Which is the best monetary system in the world—that of, say, England ; or that of India ; or that of Persia or China ? Which are the best monetary tools in the world—those made of or based on copper ; or on silver ; or on gold ? Is a "managed" currency system where the supply

of money depends on the will of Government, better than an Open, Free-Mint system where the supply of money depends upon the demands of the public? Are coins of gold or coins of silver the more suitable instruments to employ as a nation's principal monetary weapons? Correct answers to these questions are essential to a nation which aspires to take its stand among the leading countries in the world.

There is no doubt about the world's answer to these questions. The experience of all great nations has demonstrated beyond a shadow of doubt that the best monetary system yet developed is that in which

(1) Coins of gold form the chief metallic monetary instruments, fractions of the gold coins being expressed in silver, nickel, and copper tokens;

(2) Government manufactories or Mints for the free and unlimited coinage of gold money are open to the public to be used when and as the public desire; and

(3) the minimum of interference and manipulation of the currency by government departments is permitted.

This is the system adopted by Great Britain and the chief Self-Governing Colonies. It is the system followed by the principal nations of Europe

and America. In short, it is the system that has commanded the approval of the whole civilized world.

With regard to the monetary tools in daily use under the system just described, it has been found everywhere necessary to provide instruments suitable for dealing with articles and services of all values—large and small; and with the requirements of all classes of the population—rich and poor. Thus, for the lowest classes and for transactions of very small values, coins of copper and nickel are very serviceable; for the majority of people of all nations, and for most of the business in which they are engaged, coins of silver as well as those of nickel and copper are always employed. For the well-to-do, gold coins are very effective and convenient; whilst for the rich—for large merchants, and for business of a wholesale or international character—money of paper (representing gold money and payable in gold money), is used by all the most advanced nations in the world.

It is not sufficient, however, for us merely to describe the monetary system and the monetary tools employed by the most advanced countries; it is necessary to understand quite clearly *why* this system and these tools have been adopted—the more particularly as India's monetary sys-

tem and tools, it will be noticed, are *not* the best that human wisdom has yet evolved. On the contrary, India is at present handicapped by a system of a kind that Great Britain herself abandoned over a century ago, and that places India, so far as her currency management is concerned, in company with countries like Persia and China.

First, then, with regard to our monetary tools, Why have all the leading nations of the world made gold their principal monetary weapon? To answer this question properly, we must ask ourselves—What are the functions of money? What are its chief uses? The answer is simple enough. The first and foremost function of money is TO BUY. It is our CHIEF PURCHASING TOOL. It is the instrument by means of which we can (and do) secure practically everything we want, of a material nature. How and why money has come to play this part, we need not now stop to inquire. The fact is that it *is* our modern, everyday Aladdin's Lamp. It is a fact, too, that gold in this connection is far more potent than silver. It is heavier, more beautiful, and in far greater demand than silver. Moreover, all the leading nations of the world have made their chief monetary instruments of gold. And with the result that gold coins, and in particular, the British sovereign, have a wider currency than

coins of any other metal. In short, all the world recognizes that for a nation's chief Purchasing Instrument, gold is far better than silver, for the simple reasons that it will command *more goods and services,* with *greater certainty,* and over a *wider area of the earth's surface* than any other form of money yet invented. Clearly, if India desires to rank with Great Britain and the Colonies, with Japan, and with the leading nations of the world, so far as her chief metallic purchasing tools are concerned —*and she ought*—then India must demand the restoration of a gold currency.

The second function of money is to serve as a STORE or RESERVE OF PURCHASING POWER. In England and, indeed, in all the most advanced countries in the world, the chief monetary reserves are invariably held in gold, not silver. The Bank of England's Reserve is a gold reserve. So, also, are the chief monetary reserves of the United States, Russia, France, Italy, Japan, Austria, Germany, Canada, Australia, and so on. Until comparatively recently, the peoples of the United Kingdom and of France and of other countries used to keep most of their savings in hard cash, locked away in their houses. Owing to war, many people in south-eastern Europe are doing the same thing now. In India, where ninety-five per cent. of the people cannot

read and write, where distances are so very great, and where good, reliable banks are comparatively few and far between, many of the people find it convenient and satisfactory to keep reserves of Purchasing Power in their own possession. With the rapid development of the country, the spread of knowledge, the growth of confidence in the ability of Government to maintain order and enforce justice, and the enterprise of yearly increasing numbers of Indian Banks, this old habit of keeping reserves of money in the possession of individuals is steadily disappearing. The chief hoarder at the present day is the Government of India. Quite apart from their Paper Currency and Gold Standard Reserves (which run into over £65,000,000), the Government of India hoard in their Treasuries over £25,000,000 in cash, for what reason, nobody knows. This enormous withdrawal and accumulation of cash causes more inconvenience to trade than all the private hoards put together. Leaving this question of Government hoarding aside, nobody could imagine for a moment that a reserve of silver is as good as a reserve of gold. In India the people have had one lesson in connection with their private reserves of silver in the years following the closing of the Mints in 1893. The divorce of the purchasing power of coined silver

from that of uncoined silver deprived many of the poorest and most ignorant of the masses of a portion of their savings. To run any further risk now by holding reserves of depreciating ninepenny silver discs when good, full-value golden sovereigns can be easily obtained, would be the height of folly. India's monetary reserves should, in future, be of the same metal as that of which the rest of the world's reserves are composed, namely, gold. Here is a list of the chief countries in the world, showing approximately the *extra* quantities of *gold* added by their Governments and Banks to their former gold reserves during the ten years ending 31 Dec., 1910:—

Australia	over	£5,000,000
Belgium	,,	5,000,000
Holland	,,	5,000,000
Germany	,,	9,000,000
Austria	,,	16,000,000
Japan	,,	17,000,000
Brazil	,,	19,000,000
Argentina	,,	30,000,000
Italy	,,	32,000,000
France	,,	37,000,000
Russia	,,	55,000,000
The United States	,,	140,000,000

(*N.B.*—England has added practically nothing to her gold reserves in the last ten years):—

None of these countries, it should be noted, con-

sider silver so good a Reserve of Purchasing Power as gold.

Money has still further functions than those of Purchasing Tools and Reserves and of Purchasing Power. Money is our MEASURE OF VALUE and also our STANDARD OF DEFERRED PAYMENTS. It is the instrument that enables us to make comparisons between the values of this and that—rice being worth so much: *ghi*, so much: salt, so much: and so on. Neither silver nor gold money is a perfect measuring instrument because neither is stable in value. Both silver and gold money are shrinking in value at the present day, as a matter of fact. Prices (*i.e.*, values measured in money) are rising all the world over.

Here are the *Economist's* Index Numbers showing the rise of prices in England since 1901–5:—

Basis Number (average 1901–5) . . .	100
First quarter, 1911	115
Third quarter, 1911	115½
End of December, 1911	117
June, 1912	123
December, 1912	125

In England prices all round, and on the average, are 25 per cent. higher now, it will be noticed, than they were about ten years ago.

An even greater rise in prices has been observed in India. This general rise in prices (which synchronizes with an enormous production of gold—close upon £100,000,000 per annum—far and away the largest output ever known in the history of the world), is a grave misfortune to all fixed wage earners, especially those of the poorest classes. The only conceivable remedies are to raise wages so as to counteract the effect of the rise in prices, and to make more use of gold so as to prevent its value falling still more, and prices all over the world, including India, rising still higher. So here again, we see that it is better to encourage the further coinage and use of gold for monetary purposes, than of silver. To increase the supplies of metallic money in the world by adding great volumes of silver coins to the already unparalleled volume of gold money that is now flowing all over the world (and inflicting injustice on the mass of the people by raising price levels), is simply to distort still further our Measure of Value, and add to the social and economic difficulties of the day.

With regard to its function of a STANDARD AND INSTRUMENT OF DEFERRED PAYMENTS, everybody knows that the greatest money markets in the world—London, Paris, New York, Berlin, etc.—will not lend money to

borrowers who desire to repay the debt in silver. Gold money, and only gold money, is the recognized world's Standard and Instrument of Deferred Payments. By degrees every country in the world, including India, has been forced to recognize the superiority of gold in this connection. India, notwithstanding that she has Great Britain behind her, is only able to borrow and repay in silver money from and to her own less advanced peoples. Nobody else will accept deferred payments in silver. The reasons that have brought the world as a whole to the conclusion that gold money is a better Standard of Deferred Payments than silver money, are of exactly the same nature as those which have led to its universal adoption as a Measure of Value, a Reserve of Purchasing Power, and the world's chief Purchasing Tool; namely, it is more atttractive, and (so people believe) of less variability in value than silver, or any other metal. And so it has come to pass that all the most advanced nations in the world have, after a variety of trials extending over long periods, decided to make their chief metallic, monetary tools of GOLD rather than silver.

Shall India follow suit, and once more make use of gold money in her daily transactions as she did to some extent only a few generations ago?

Or shall she continue to be the only great Division of the Empire and, indeed, the only great country in the world that still clings to the inferior monetary weapons of a bygone age?

There can only be one answer to this question, and that is—*India should have a Gold Currency: and the sooner, the better.*

It is most satisfactory to know that the Government of India are entirely in sympathy with India's ambition to be equipped with the best monetary tools and the best monetary system. Sir Guy Fleetwood Wilson, when introducing his Financial Statement for 1912–13, gave expression to his gratification that sovereigns had been imported in "imposing volumes," and that he had been able . . . "to refrain from the fresh coinage of silver." Moreover he was . . . "convinced that the masses of imported sovereigns would not all disappear into hoards or the melting pot; but that, as the people became more familiar with them, their use as genuine currency would very largely extend." The Finance Member's confidence in the good sense and healthy ambition of the peoples of India has been fully borne out by facts. Gold coins are now circulating freely in Northern, Western and Southern India. Eastern India also will soon join in the march forward.

CHAPTER III

THE MEANING AND USE OF A MINT

WHAT is the use of a Mint—an Open, Free Mint? Ought India to have an Open, Free Mint? Has India a *right* to an Open, Free Mint? If so, why is India denied this RIGHT?

A Mint is a Government manufactory at which the precious metals are tested, cut into pieces of convenient size for monetary purposes, and stamped with a Government mark. This enables the public to see at a glance that the precious metal in circulation as money is of good quality and proper weight.

Two and a half centuries ago (in 1666) an Act was passed in Great Britain which enabled any person whatsoever—" Native or Foreigner, Alien or Stranger"—to bring gold and silver to the English Mints to be coined. Any person presenting gold or silver in any form to the Mint authorities . . . " shall have the same assayed, melted down, and coyned with all convenient

speed, *without any defalcation, diminution, or charge for the assaying, coynage, or waste in coynage.*" (18 Chas. II, C. V.) With the passing of this Act, the RIGHT of FREE COINAGE was established in England. That right exists to this day, although the free coinage of silver was suspended in 1798 in England, and finally abolished in 1816 when the present system of employing gold only as the chief monetary tool was introduced.

The RIGHT of FREE COINAGE existed *in India* till June, 1893, when the Mints were closed to the free coinage of silver, with the object of advancing to gold exactly as had been done by England in 1816, and, subsequently by all the most civilized and powerful nations in the world. In 1898 a Committee of experts (the "Fowler" Committee) recommended that the Indian Mints . . . "should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint." (Section 54, Indian Currency Committee's Report, 1898–9.) That recommendation has not yet been carried out, and India's RIGHT of FREE COINAGE has therefore not yet been restored. It is desirable that the results of this withdrawal of a most essential RIGHT should be clearly understood.

The vital importance of an Open, Free Mint at

which full-value, legal-tender money can be coined and issued *as required by the public*, will be clearly appreciated when the true nature and functions of this essential State mechanism be considered. Just as every boiler is fitted with a safety-valve, and every steam-engine with an automatic governor (where steady, regular running is essential), so every good, modern currency system—British and Foreign—is equipped with an Open, Free Mint by aid of which trade pressure, so far as money is concerned, is maintained within safe limits: movements in the foreign exchanges are enabled to take place *automatically*: and variations in price and discount levels are *automatically* adjusted with the least disturbance to the levels of neighbouring countries and to the natural trade requirements of the world generally. This perhaps requires a little explaining.

The general level of prices is admittedly related, though the relation nowadays is greatly obscured by the magnitude of the credit resting on a small metallic basis, to the quantity of money in actual circulation. If, for example, large quantities of unmanufactured money, i.e., gold, are suddenly discovered in any given locality, then money in that locality becomes relatively cheap—in other words, prices there become relatively high. This high level of prices attracts

commodities from other parts of the world: with the result that goods flow in and gold flows out of the gold-producing district. As the precious metal flows into the country supplying the commodities, it tends by its relative abundance to raise the general level of prices in that country. What is the result? Relatively high prices in any country attract goods from other countries to the country of high prices, and gold has to be shipped in settlement of the balance due to the goods-supplying country. Here, very baldly and simply stated, we have the theory of the international exchanges, and the ultimate reason underlying the shipment of money from one country to another. Goods are shipped from countries where prices are relatively low, to other countries where prices are relatively high; whilst metallic money flows from the lands of high prices to those of cheap goods. As the metallic money runs into its new reservoirs it tends to raise price levels in the money-receiving localities, and so prepares the way for a further subsequent adjustment of price levels and of metallic monetary levels. And this adjustment and readjustment goes on, year in and year out, all over the world—not, be it carefully noted, at the instigation or by the direct assistance of the Governments of any of the countries concerned, but in response to the

activities and requirements of the trading public. Government's sole function in these matters is simply to provide the necessary monetary mechanism—the safety valve—the automatic governor, in plain language, the State Mint where the precious metal in use as the chief monetary instrument can be freely received, refined, and manufactured into legal tender money just when and as the public may demand.

Without an Open Mint, the manufacture of money depends upon the judgment or idiosyncrasy of some individual or individuals holding office under Government. And with the result that, instead of being automatic, in response to the general demands of the public, the manufacture, or delay in manufacturing, or non-manufacture of money is liable to be inspired by the private or class requirements of a few influential merchants or big money dealers. Thus (1) the foreign exchanges, (2) the current rates of interest, and (3) the general level of prices may all be influenced by withholding money when it is badly wanted, or issuing it in excessive amounts when there is no real, widespread demand for it. The defects and grave abuses inseparable from State management have been so widely recognized, that closed, State-managed Mints have been everywhere abandoned long ago. India, Persia and

China are now the only prominent relics of bygone ages in these matters. It seems hardly fit that India, with its vast internal and external trade, should any longer keep company with Persia and China in their pathetic lack of monetary system.

One official quotation will suffice to show the light in which Great Britain regards a "managed" currency as compared with an automatic currency such as an Open Mint affords. The following is an extract from the reply of the 24th November, 1879, by the Home Treasury to a proposal of the Government of India to close the Indian Mints, and give India's chief metallic monetary tool—the rupee—an artificial value:—

". . . The proposal appears open to those objections to a token currency which have long been recognized by all civilized nations, viz., that instead of being automatic, it must be 'managed' by the Government, and that any such management not only fails to keep a token currency at par, but exposes the Government which undertakes it, to very serious difficulties and temptations" . . .

Similarly authoritative quotations could be produced from a dozen quarters.

We see, then, that an Open, Free Mint is regarded by Great Britain (and, we may add, by every other great nation) as an essential feature of a modern currency system, its great advantage

being that it permits prices, discounts, and exchange to move *automatically* in accordance with the general demands of trade, and *not artificially in response to the wire-pulling of interested parties or classes.* . . . .

It may be useful to place on record the work performed by the Open, Gold Mint in. London as described by Mr. E. Rigg, C.B., I.S.O., Superintendent of the Royal Mint, Tower Hill :—

(1) The free coinage of gold presented by the public for conversion into full-value, legal-tender money.

(2) The coinage and issue of token silver and bronze coins as they may be required, from bullion purchased specially for that purpose by Government.

(3) The execution of coinages required by some of Britain's Colonies and Dependencies ; and

(4) The manufacture of naval, military, and other medals ; and miscellaneous duties.

The duties included under headings (2), (3) and (4) are already undertaken by the Calcutta and Bombay Mints. It is in respect of function No. (1), the free coinage of gold presented by the public for that purpose, that India must now advance to the level of Great Britain, the Self-

Governing Colonies, and the principal nations of the civilized world.

It is most satisfactory to know that in this march forward from a second-rate, token, silver currency with closed mints, to a first-rate gold currency with an Open, Free Mint, the peoples of this country have no more powerful advocates than the Government of India. In a Despatch dated May 16, 1912, signed by Lord Hardinge of Penshurst, Sir Guy Fleetwood Wilson, and the other Members of Council, and published in India in February, 1913, the Government of India have pleaded strongly for the establishment of an Open Mint in India at which sovereigns could be freely coined as demanded by the public. A counter-proposal has been made by the India Office in London to issue a new Ten Rupee Gold Coin from the Indian Gold Mint. But as 40,000,000 of sovereigns are estimated to be already in use in India, and as the sovereign is well known not only in India, but all over the world, it will be far better to continue with the sovereign —if an English sovereign be impossible—than with a *distinctively Indian sovereign of exactly the same size, weight and value as the English sovereign.* Such a coin would prove very valuable and popular in India. It would do more. It would in time probably carry the name and fame

of India to the remotest corners of the earth. No Indian patriot will object to this!

The Secretary of State's Despatch of October 18, 1912, to the Government of India inquires what seigniorage (Government commission)—if any—it is proposed to charge the public for coining gold at the Indian Gold Mint. There should be no charge at all. India's Gold Mint should be Open and Free to the public, exactly the same as Great Britain's Gold Mint is. Only in this way can India's currency system be properly developed.[1]

[1] When, in 1869, the Chancellor of the Exchequer (Mr. Lowe) proposed to levy a charge to meet the expenses of coinage at the London Mint, the subject of Free Coinage was exhaustively discussed in Parliament and in the Press. The main argument urged against Mr. Lowe's proposal was that it would have a bad effect on British commerce *by interfering with the free use of the sovereign in commercial transactions in foreign countries.* In the same way, India's sovereigns must be coined *free of charge*, so that they, also, may be freely used, when necessary, in the adjustment of international trade balances.

CHAPTER IV

INDIA'S PROGRESS TO A GOLD CURRENCY

WE have seen that gold money is better than silver money—that all the leading countries use gold coins as their chief, metallic, monetary tools and that if India desires to rank with the greatest nations in the world in currency matters, she also must advance from silver to gold for her principal currency weapons just as all the other great nations have done. It is satisfactory to know that the peoples of India have already made considerable progress in this direction. As there seems to be a great deal of misapprehension both in England and abroad as to the extent to which gold is now being used as currency in India, it seems desirable that a little light should be thrown upon the subject. First, it will be well to correct some of the errors that have been sown broadcast in this connection.

In their Annual Bullion Letter of 1st January, 1912, Messrs. Samuel Montagu & Co., the London

financiers and bullion dealers, prefaced a series of misleading statements regarding the Indian currency with the announcement that

> "It must be remembered that silver rupees have been from ancient times the only coins familiar to the varied and populous nations of India."

As a matter of fact, gold coins—*pagodas* and *mohurs*—were in common circulation in India a hundred years ago, and had been in use for many centuries before our advent. These coins were from time to time exported and were well known in Ceylon, Mauritius, New South Wales and the Cape of Good Hope. Gold *pagodas* were the common money of account in Madras, and gold *mohurs* in Bengal. It was the British Government who, in 1852, fearing that gold was seriously depreciating in consequence of the great Californian and Australian discoveries—a fear that was shared by some of the leading economists of the day—declined, in India's interests, to receive any more gold coins at the Government Treasuries.

A few paragraphs further on, Messrs. Samuel Montagu & Co. stated in their Annual Bullion Letter (of 1st January, 1912), that

> "The fact remains that gold is at the present time available (in India). No demand on the Treasury is made for it now, for, as in all other countries when once it is known that gold is available notes are preferred as being the more convenient."

The truth was, and is, that the demand for gold for currency purposes is very large, and is daily increasing—many millions of sovereigns being in circulation in northern India, the country folk much preferring sovereigns to notes.

In their Annual Bullion Letter issued on the 1st January, 1913, Messrs. Samuel Montagu & Co. cap their previous mis-statements with the ridiculous announcement that

> "The bulk of hoarded wealth in India is buried, so that at the present time nearly all the gold dug from the earth in South Africa is by a fresh digging operation deposited again beneath the soil in South Asia."

A more false and utterly misleading assertion it would be difficult to conceive. The annual output of gold from South Africa now exceeds £40,000,000. To say that "nearly all" this gold is regularly "deposited again beneath the soil" of India is to reveal a complete ignorance of what is going on in our great Eastern Dependency.

The last Official Report dealing with the use of gold as money in India is the Report on the Operations of the Paper Currency Department in India during the year 1911–12 issued on the 21st December, 1912, by the Comptroller-General and Head Commissioner of Paper Currency, Calcutta. That Report shows that the total net imports of sovereigns into India in the twelve

months ending 31st March, 1912, were £18,233,000 (eighteen millions, two hundred and thirty-three thousand pounds). Of that sum £9,344,000 was added to the balances of gold in the Government Treasuries, so that £8,889,000 were "absorbed" by the public, to use the expression employed by the Paper Currency Department. What this "absorption" really means can be gathered from the following extracts from the Official Report:—

Burma. "Gold appears to have been used to some extent in financing the rice trade in Rangoon, Bassein, Akyab and Henzada."

South India. "The whole (92 lakhs) of the sovereigns is reported by the Bank of Madras to have been issued to their branches at Aleppy and Cochin—Gold has passed freely into circulation in Travancore and its volume is increasing."

United Provinces. "There was a considerable increase in the gross receipts and issues of sovereigns during the year, and much of the gold coin issued came back into the Treasuries. In some districts sovereigns were received with revenue collections, proving the use of gold as currency by the agricultural population."

Bombay. "The circulation of sovereigns is steadily increasing. The coin is becoming more familiar to the people and is being used for the purpose of crops at up-country places to a larger extent than before.—Apparently gold is replacing rupees in connection with trade remittances."

Ambala. "The use of gold among all classes may now be considered general."

Gujranwala. "There has been a very marked increase in the use of sovereigns by the people of this district."

Gurdaspur. "There is no doubt that the circulation of

the sovereigns is considerably larger than it was in the past. This is true of the village bazaar as of the urban market."

Hoshiarpur. "Gold is generally tendered in the bazaar, when making large payments. The people give preference to gold over silver."

Jhang. "Messrs. Ralli Bros. do not accept gold: other European Firms and Indian Firms prefer gold. The people prefer gold because it is less troublesome than silver money."

Lyallpur. "The European Firms prefer silver, but among the agricultural classes, sovereigns are popular and in constant circulation."

Multan. "A considerable portion of gold is in circulation and daily transactions in big villages and towns are carried out in gold to some extent."

Shahpur. "About three-fifths of the gold issued from the Treasury is in circulation as currency."

The Karachi Chamber of Commerce writes :—"Sovereigns are now more popular and more widely used as currency than ever before. There is every indication that the peoples of Sind and the Punjab are appreciating the advantages of gold coins, and that the popularity of sovereigns is likely largely to increase."

The Punjab Chamber of Commerce at Delhi writes :—"Sovereigns are becoming popular and their circulation is increasing. They are accepted as legal tender in the bazaars, and this may be attributed to the intelligence of the people."

From the Banks comes a similarly unanimous testimony in favour of the popularity of gold among all classes.

The National Bank of India writes :—"Sovereigns are rapidly taking the place of rupees throughout the Punjab."

The Chartered Bank of India, Australia and China writes :—

"The sovereign is now firmly established in popularity for currency purposes."

The Bank of Bengal (at Delhi and Lahore) state that:—
"The daily transactions in sovereigns are growing wider."

All the other Banks report the same. The Commissioner of Paper Currency, Lahore, correctly sums up the whole situation in his report of July 30th, 1912:—

"The replies" (from all whom he had consulted) "constitute a large mass of evidence which is almost unanimous in declaring that the popularity of the sovereign as currency is greatly on the increase, and that there is practically no part of the Punjab or the Frontier Province where it is not eagerly sought after and accepted."

The above quotations are sufficient to indicate that the £8,889,000 which India "absorbed" in 1911-12 have not all been buried. But even if the whole eight millions *had* been so disposed of, this would hardly support the absurd statement recently published by Messrs. Samuel Montagu & Co., in their Bullion Circular that "nearly all" the gold unearthed in South Africa was now reburied in the soil of India.

The following further extracts from the Paper Currency Report are particularly noteworthy:—

"All the Treasury Officers in the Bombay Presidency report that gold is not being hoarded or melted now to the same extent as before."

"*The latest estimate of the number of Rupees in circulation*

is 180 crores, and the figures for gold . . . may be taken to be 60 crores (i.e., £40,000,000). . . . The growth of the circulation of silver has not kept pace with the growth of circulation of gold " . . .

It is well that these facts should be widely known, because there is a strange apprehension in some quarters that a wealthy, prosperous (and therefore contented) India, building up its currency on the same metallic basis as that of the rest of the British Empire, is a danger to the whole civilized world. Some writers in Europe and elsewhere seem to think that the world ought to combine to prevent India receiving payment *in gold* for the goods which foreign nations have bought from her. A more preposterous suggestion has never been made in modern times. Austria, Japan, Brazil, Italy, Argentina, France, Russia, the United States, and all the other countries in the world are to be allowed to take *and keep* whatever gold they please. (Indeed, in ten years they have already laid hands on, *and retained*, over £375,000,000 *in gold !*) But if poor India asks to be paid in gold the sums that are justly due to her as the result of her trade with foreign countries, then heaven and earth must be moved to stem the "danger." Needless to say, there is no danger at all, beyond that perhaps involved in some of the great Banks in Europe not being able to

increase their regular dividends so rapidly as they might do, if India were prevented from importing whatever gold she pleased.

India must take no notice of the cries raised against her by interested or ill-informed people in Europe and America. India must march steadily forward to a *pucca* gold currency with open Mints for the free coinage of gold exactly the same as the monetary system of Great Britain, and of all the other principal nations in the world.

For everyday use among people of moderate means, sovereigns are much more convenient to handle than rupees. Value for value, they are less bulky and not nearly so heavy. For trade purposes, sovereigns are more economical than rupees, because the cost of transmission by rail or through the Government Treasuries is less. And there are plenty of sovereigns available. All good Banks will give their customers sovereigns if required; whilst the Government Treasuries (in the Paper Currency Department) hold nearly £20,000,000 in sovereigns at the disposal of the public, if required.

Another point is this:—As soon as the peoples of India are everywhere using sovereigns freely as currency, as the peoples of Great Britain do, and so long as a good stock of sovereigns is avail-

able in India in the Paper Currency Reserve, say, £30,000,000, *there will be no necessity to maintain in London or elsewhere the present wasteful and dangerous Gold Standard Reserve of over* £20,000,000. The return of this £20,000,000 to India, and its employment in India, for the benefit of India, will be a great advantage which we should all strive to secure.

CHAPTER V

THE FREE COINAGE OF GOLD BY INDIA

WE have already considered the meaning of a Mint in its theoretical aspects. The practical side of the problem now demands attention. Let us recall a little history.

The recent publication of the correspondence that passed between the India Office, the Treasury, and the Government of India in 1899–1902 on the subject of the opening of an Indian Mint to the free coinage of gold, brings to light three very interesting and important facts, namely (1), that the India Office and the Government of India both endeavoured to give effect to the recommendation of the Indian Currency Committee that an open, free, gold mint should be established in India as soon as possible; (2), that the Mint authorities in London, by a report that was in parts historically inaccurate and economically unsound, misled the Treasury and the India Office: with the result (3) that the Government of India eventually decided to drop

the scheme for reasons and upon grounds that will not bear examination. India has in consequence lacked for eleven years what, rightly considered, can only be regarded as the keystone and centre of her currency system. Lest a similar mishap occur again, it is of the utmost importance to India, now that the question of establishing a Gold Mint in Bombay is once more under consideration, that the whole ground should be carefully re-examined so that a correct path may be selected without further delay.

Where the Deputy Master of the Mint in London went astray in his report of the 15th August, 1899, can be gathered from the following extracts. After reciting and explaining with lawyer-like precision the various Acts, proclamations and precedents that had, or might have, a bearing on the subject, Mr. Seymour went on to say:—

"It must be borne in mind that the establishment of branch mints in Australia was due solely to the discoveries of large gold deposits in New South Wales and Victoria, and latterly in Western Australia. These mints were not and are not required for the purpose of supplying the gold coinage needed for currency purposes in the Australian Colonies, but in order to meet the wants of the mining community. . . . The production of gold in Australasia for the year 1898 amounted to 3,547,079 ounces, whereas that for India did not probably exceed one-tenth of this amount. . . . The

reasons which led to the establishment of mints in Australia, therefore, do not hold good in India. . . . It appears to me that the *early* establishment of a mint in India to coin sovereigns is not necessary."

This entirely gratuitous expression of opinion was ignored by the Treasury, the India Office, and the Government of India, and preparations for the opening of a gold mint in Bombay proceeded rapidly. By the 22nd Februry, 1900, the draft proclamation by the Queen had been prepared and pronounced correct by all the officials concerned; and only the merest details of the exact location of the new bricks and mortar in the compound of the Bombay Mint remained to be settled. Unfortunately a difference of opinion arose between the Bombay experts and Mr. Seymour's department regarding the size and position in the compound of the new mint building. The correspondence went backwards and forwards for over a year. Then suddenly, in May 1901, Mr. Seymour "felt it his duty even at that late stage" to raise again the question as to whether a branch mint for the coinage of sovereigns in India was really needed. The India Office immediately replied (18th June) that the establishment of a mint for the coinage of gold in India . . . "is the clearest outward sign that can be given of the consummation of the new currency system . . .

His Lordship is not inclined to abandon the scheme at the stage it has now reached" . . . Here, however, the Treasury unexpectedly backed up Mr. Seymour and retorted that . . . "my Lords are disposed to think that recent experience has shown that it is quite unnecessary to provide facilities for the coinage of gold in India." The correspondence was accordingly shuttlecocked back to India. By this time, the gold-mining companies of Southern India, despairing of ever making any satisfactory arrangement for the conversion of their gold into money at the Bombay Mint, had made new, long-term contracts with London bullion dealers. The Government of India having learnt this fact, then took a very despondent view of the situation, and replied to the India Office that . . . "In the absence of an assurance that a steady and permanent "supply of gold of local production will be available for coinage in this country, we prefer to drop the scheme for the present, leaving its revival to the existence or revival of conditions which cannot at present be foreseen." [Government of India's 385 of 25th (sic) December, 1902.] The India Office acquiesced in this proposal on the 6th February, 1903.

It will be noticed that the consideration which determined the Government of India to abandon

for the time being the opening of a Gold Mint in Bombay, was the fact that the gold-mining companies of Southern India would not undertake—in the autumn of 1902—to send their surplus gold to the proposed Mint for conversion into coin. This desire on the part of the Government of India for a "steady and permanent supply of gold of local production," and the importance which the Government of India then attached to this supply of gold from the Indian mines, were clearly the outcome of Mr. Seymour and the Treasury's argument that without large supplies of gold *from the mines of India*, a Gold Mint *in India* was unnecessary. Had not Mr. Seymour pointed out that the Australian mints were not, and are not, required for the purpose of supplying the gold coinage for currency purposes in the Australian Colonies but *in order to meet the wants of the Australian mining community!* And had not the Treasury concurred in this view? Seeing, then, that the Indian mining community were not demanding a Gold Mint in Bombay, and knowing that the Indian mines would not for some time to come send their gold to the Bombay Mint to be coined even if that Mint were established forthwith, we can understand how the Government of India came to the conclusion that they had better drop the scheme for the time being.

But the conclusion was nevertheless wrong, because it was based on an imperfect appreciation of the meaning and use of a modern mint, as we now propose to show. In the first place, whilst it is no doubt true to say that the Australian Mints "meet the wants of the mining community," it is both untrue and misleading to assert that the Australian Mints "were not, and are not required for supplying the gold coinage needed for currency purposes in the Australian Colonies." Before the opening of the Sydney and Melbourne Mints, the settlers were greatly inconvenienced owing to insufficiency of metallic currency. So scarce were legal tender coins at one time that *Indian gold pagodas were made legal tender in New South Wales!* The Australian Mints undoubtedly supply the gold coins needed for local purposes in Australia at the present day, but to suggest that except for Australia's present gold supplies open mints in Australia would be unnecessary (because Australia could obtain such metallic currency as was required, from London, or Ottawa, or some other gold mint in some other part of the world), is to reveal a currency outlook more appropriate to the Middle Ages than to the twentieth century.

The truth is that the whole idea whch Mr. Seymour (and the Home Treasury) endeavoured

to establish, namely, that without a large *local* production of gold, a gold mint is unnecessary, is based on an imperfect understanding of the subject. The gold unearthed annually in Great Britain is only about one thousandth of that mined every year in India. Yet London enjoys one of the largest and best equipped mints in the world! How is that? If Mr. Seymour's argument be a sound one, then the mint in London of which he himself was Deputy Master, ought to have been abolished long ago as a costly and altogether unnecessary luxury. The principal British Mint ought to be established in South Africa, say at Pretoria. Such a mint could probably turn out all the sovereigns required by the whole of the British Empire!

It cannot be too frequently or strongly emphasized that a modern mint is *not* merely a miners' convenience. It is the *automatic State mechanism* which, by permitting the free inflow and creation of legal tender money as required by the public, enables prices, discounts and the foreign exchanges to adjust themselves *automatically* to the levels of foreign countries and *not artificially* in response to the "management" of some Government Department. In the absence of an open mint in India at the present day, the Secretary of State by his weekly sales of rupees

at prices which he himself manipulates, affects (1) imports of gold and silver into India, (2) the sterling value of the rupee, (3) the rates of discount in India and (4) the general level of prices—a state of affairs that in principle has been universally condemned by currency experts, economists and statesmen all the world over, and that can now only be found in operation outside India in such poor, backward countries as Persia and China.

Without an open mint in London, foreign nations might conceivably have to pay their debts to the United Kingdom in francs, dollars, rupees, roubles, or some other coins that are not legal tender in England. But with an open gold mint in London that coins sovereigns free of charge, everybody and anybody can obtain as many sovereigns as are required by the simple process of tendering the equivalent amount of gold to the London Mint. India ought to be equipped with an exactly similar mint, and the weekly manipulation—accidental or intentional—of India's foreign exchanges, etc., under the auspices of a Committee of London bankers, put an end to forthwith. There is not the slightest necessity to ask the Indian gold mining companies or any other gold owners in or out of India for an assurance of a steady supply of gold. The fact that the foreign trade of India generally

results in a substantial balance in India's favour is the best possible guarantee that gold will flow into India, *unless Government deliberately checks it, as is now being done by the offer and sale every week, of large volumes of token silver coins at prices that are lower than gold import point.* Exactly where the gold will come from, must depend on the circumstances of the moment. It may be that the gold reserves (ornaments) of the Indian public will first pass through the new Gold Mint. (Let us pray, not.) It may be that some of India's "light" sovereigns, millions of which Government have already shipped Home in the absence of a Gold Mint in India, may be treated at the new Bombay Gold Mint. Or it may be gold from the Indian mines, or the Australian mines, or the South African mines that Bombay banks and bullion dealers will tender for conversion into Indian legal tender money. The gold will *have* to come from somewhere in settlement of India's favourable balance of trade—that much is quite certain. And whatever gold it is—British or Foreign, coined or in bars,—the Indian Gold Mint must be ready, with the very best appliances and the most skilled workmen, to assay, refine, and coin that gold into good British sovereigns free of charge, and with the minimum of delay.

A safety valve is not ordinarily considered

worthless or unnecessary unless steam be always rushing through it. In the same way, India's Gold Mint will be none the less essential even if its stamps be silent for some periods of the year. As for the expense (which seemed to weigh so much on the London Mint Master's conscience), the cost will be nothing compared with the benefits to India—the regaining of a Right of which this country was temporarily deprived in 1893—the Right of Free Coinage—the Right to an *automatic* adjustment of prices, discounts and the foreign exchanges—the Right to be free from constant interference and withdrawal of financial strength by a secret committee of London financiers whose own interests are of necessity frequently opposed to the interests of India—the Right to manufacture and use India's money in India, for India: and not outside India, for the benefit of strangers.

CHAPTER VI

INDIA'S MONEY FOR INDIA

FOR the creation of wealth, four things are essential, Demand operating on Materials by the aid of Labour and Capital. India, with its population of 315,000,000—with its immense areas of rich, well-watered soils—with its great stores of minerals and vast volumes of valuable agricultural products, is perhaps more splendidly endowed with Labour, Materials and Demand than any other division of the British Empire. But India lacks cheap Capital. Whilst Great Britain's traders and manufacturers work by aid of capital borrowed at 3, 4 and 5 per cent., India's merchants are handicapped by having to pay 6, 8 and 10 per cent. Indeed, at busy times of the year, and in many parts of the country, still higher rates are often paid in emergencies for short periods.

In these circumstances, it is of the utmost importance that India's monetary system shall be of such a kind as will facilitate and encourage

the creation and inflow of cheap capital. Unfortunately, monetary conditions in India have had exactly the opposite effect, and India has been, in consequence, doubly handicapped. Not only has cheap capital from abroad been hindered from flowing readily into India, but much spare Indian capital that might have been utilized in India for India, has been arbitrarily withdrawn from India and employed in England to the advantage and for the benefit of strangers.

Let me explain this double handicap. Owing to India's currency consisting very largely of over-valued, silver tokens liable in times of crisis to lose in value, the western world does not regard India's monetary system with the same confidence that it feels towards the monetary systems of Great Britain, or Canada, or Australia, or South Africa. Consequently, private capital does not flow to India so readily as it does to many other countries, with the result that India does not derive the same advantage from the low levels of interest and discounts prevalent in Great Britain, that most nations of the western world frequently do. This is Handicap No. 1.

Then again owing to the Indian Mints being closed to the public (a most objectionable state of affairs that, as before pointed out, puts India,

monetarily, on a par with Persia, or China), instead of India receiving the money due to her in settlement of the balance of her foreign trade, *automatically, through the agency of an Open Mint as England and every other modern, civilized country does*, the India Office steps in and so manages the adjustment of India's monetary receipts that instead of India being paid the sums due to her in money of the best quality, she is actively encouraged by the India Office to accept depreciating silver tokens. At the same time the India Office has withdrawn over forty millions sterling (£40,000,000) of India's spare cash and accumulated funds and reserves. This is Handicap No. 2.

This last handicap needs further explanation. Sovereigns are legal tender in India as well as rupees. (And sovereigns are admittedly the best and most widely accepted coins in the world.) It may be thought by some people that if India wants to import sovereigns, there is nothing whatever to prevent her from doing so. But there *is* something. There is the India Office in London shouting every week, in effect—" Why send sovereigns to India that are legal tender in India for only Rs. 15 when this Office will sell you fifteen rupees delivered in Calcutta, Bombay or Madras *for less than it will cost you to ship a*

sovereign to India?" After all, business is business, and we cannot be surprised if exchange bankers and others accept the India Office's proposition, and purchase rupees delivered in India rather than go to the extra expense of shipping sovereigns to India.

Why does the India Office do this? The chief reason is the Home Charges. India, like most other countries in the world, is indebted to Great Britain for the loan of a certain amount of capital (borrowed by the Government of India for canals, railways, and other reproductive works). Then there are pensions to civil and military officers, and other payments necessary for the general maintenance of a good administration. Altogether, these Home Charges amount to £15/17,000,000 per annum—a very moderate sum compared with the sterling debts of other countries. In order to meet these charges, the Government of India raises the necessary money by taxation, and this money it is that the India Office puts up for auction every Wednesday in London. Buyers in London give English money to the India Office and receive in exchange rupees in Calcutta, Bombay and Madras. As the India Office *must* have the money in London to enable it to meet the Home Charges, we can understand a certain anxiety on the part of the India Office

Officials to sell as many rupees as they can. This, then, explains why the India Office frequently sells rupees at cheap rates (i.e., at lower rates than the equivalent of the cost of landing sovereigns in India). It is to make quite sure of having sufficient funds in hand in London to meet the Home Charges.

Unfortunately for India, the withdrawal of money from India has not stopped at the Home Charges. The India Office, although it has had no legitimate need whatever for the money, has nevertheless continued to sell rupees at such low rates that as much as £14,300,000 *in excess of its own Budget requirements* have been realized *in one year.* By continuing this indefensible policy of withdrawing from India more money than was required for the Home Charges, the India Office has during the last few years drained from India—the land of *dear* capital—nearly £40,000,000 of India's money, most of which money has been subsequently invested and lent out in England—the land of *cheap* capital—on terms that, in Indian eyes and compared with terms that could have been obtained in India, appear grossly unfair to India.

The public have had great difficulty in following and detecting all the particulars of this unwarranted drain of India's reserves and spare cash.

Most people know that nearly all the Gold Reserve which the Fowler Committee of 1898 recommended should be held *in gold*, has been withdrawn from India to England and (*a*) invested —£16,000,000 of it—in British, Irish and Colonial securities, (*b*) deposited—£2,000,000 to £6,000,000 of it—in the Bank of England, and (*c*) lent out —over a £1,000,000 of it—to large money dealers in London—all most objectionable proceedings from the point of view of India. Then again, many people have noticed that £6,000,000 in cash of India's Paper Currency Reserve—money that can only be legitimately employed in India for cashing the Paper Currency—has now been transferred to London. The rest of the money—£15,000,000 to £18,000,000—has been drained from the cash balances in the Treasuries in India, and has been lent out in London with and without security to various banks and money dealers.

It is of interest to note that of the cosmopolitan financiers in London who have been enjoying the loan of so much of India's money no less than ten firms have each been regularly and almost continuously, for at least five years past, receiving roughly A MILLION STERLING APIECE per annum of India's spare cash. Here are the names of the favoured ten:—

Alexanders & Co. borrowed and repaid in all about
£1,000,000 per annum since 1908.
Brightwen & Co. borrowed and repaid in all about
£1,300,000 per annum since 1908.
Bristowe & Head borrowed and repaid in all about
£900,000 per annum since 1908.
Cunliffe R. Sons & Co. borrowed and repaid in all about
£1,000,000 per annum since 1908.
Hohler & Co. borrowed and repaid in all about
£1,200,000 per annum since 1908.
Hopkins & Giles borrowed and repaid in all about
£1,300,000 per annum since 1908.
Reeves, Whitburn & Co. borrowed and repaid in all about
£1,400,000 per annum since 1908.
Samuel Montagu & Co. borrowed and repaid in all about
£2,000,000 per annum since 1908.
Sheppards & Co. borrowed and repaid in all about
£1,000,000 per annum since 1908.
Wedd, Jefferson & Co. borrowed and repaid in all about
£1,500,000 per annum since 1908.

The most fortunate people, it will be noticed, appear to have been Messrs. Samuel Montagu & Co. They have apparently been the recipients of what amounts practically to standing loans that totalled in all about £2,000,000 (two millions sterling) per annum of India's spare cash *for the last five years!*

It should be particularly noted that these are among the "short" or "temporary" loans which are granted at low rates of interest *because they are only for short periods and may be recalled.* These

short periods have, by repeated fresh loans, now extended through at least five years—possibly more.

Sufficient has now been said to show that a very real drain has been going on—a drain that, in the best interests of India, *must be stopped forthwith.* India, suffering from an insufficiency of cheap capital, should not be deprived of such accumulations of money as she may fortunately possess. On the contrary, these accumulations, whether hoarded by ignorant, old-fashioned, country folk in their houses and barns, or by a well-informed, up-to-date Government in its Government Treasuries (and the Government of India with a cash balance that recently ran up to £30,000,000, is the greatest hoarder of all), should be placed at the disposal of, or on loan with those members of the public who are able to use them wisely in the public interest. It is for India's publicists, patriots, financiers, and bankers to educate the Indian country people, and explain to them the disadvantages of hoarding their savings and surplus cash in their houses. Such moneys, if placed on deposit with some good bank, will not only yield interest to their owners, but they will at the same time enable the banker to utilize the capital for the development of Indian business of all kinds. This will be a great advan-

tage to India. Government on their part can lead the way, and themselves set a good example by

(1) establishing a full-value, gold currency system with Open, Free, Gold Mints in which the whole world in and out of India will feel confidence;

(2) restricting all unnecessary withdrawals of Indian money from India, and confining the Home drawings strictly to the sums necessary to meet the Home Charges;

(3) reducing taxation and so absorbing the present gravely swollen Treasury balances and reducing them to a reasonable figure; and, in the meantime,

(4) freely lending to the chief Banks and Finance Houses in India substantial sums from the present Treasury balances, for short or long periods, with or without security, and at rates equal to or above those at which Banks and Finance Houses in London have been so long favoured.

Here is a policy which would tend to remove the financial difficulties under which India at present labours. It would give to India from abroad, as well as from her own sons, fresh supplies of much needed capital at moderate rates of interest. At the same time it would put into

practical operation a principle which, owing to the absence of an Open, Free, Automatic Mint, has been allowed to be lost sight of altogether—the principle of employing India's money *in India,* and *for India.*

CHAPTER VII

INDIAN BANKING

We have seen that Capital is essential for wealth creation. We have remarked also, that India badly lacks good supplies of cheap capital. This does not mean that there are no supplies at all of capital in India. Immense accumulations of unemployed capital exist in this rich division of the British Empire; but these accumulations are not at present all used in the best way, that is, in the way most profitable both to (a) the owners of the capital, and (b) the community at large. How to remedy this defect is a problem well worth the attention of every patriotic Indian.

What is capital? Capital is simply wealth set aside for the satisfaction of future needs. There is plenty of such wealth in the great continent of India, from the substantial reserves of some of the Indian Princes to the tiny hoards of the more thrifty agriculturalists. And as there are probably more aristocrats and certainly far more people in India than in any other part of

the British Empire, it is not outside the realms of the possible that there may be far greater accumulations of capital in India than in any other portion of the Empire except, probably, Great Britain itself.

Unfortunately these accumulations of capital are not all being employed reproductively, and India is not, therefore, advancing as rapidly in the work of wealth creation as she might otherwise do. The former fact is very strangely regarded in the West. Thus, it is nowadays a popular belief in Europe and America that the peoples of this country have inherited such an extraordinary passion for gold and silver that any of the precious metals which are imported into India, will never be seen again by the outside world![1] No doubt much gold and silver are hoarded in India, in one form and another. This is not surprising when we remember that 295,000,000 out of the 313,000,000—the total population in 1911—*are illiterate*! Even so, the hoarding habit is by no means peculiar to India. Distrust of Govern-

[1] Prominent Financiers and Bullion dealers who ought to know better (Messrs. Samuel Montagu & Co.), add to the ignorance and prejudices of the West by disseminating silly stories about Indians swallowing gold for medicinal purposes, gilding the domes of their religious buildings, and using sovereigns to ornament window panes, etc., as though gold were not used for a variety of purposes—not always useful or artistic—in Europe and America, as well as in India.

ment, or of the local representatives of Government, or of the surrounding conditions, or of the world's politics may each and all lead to hoarding. Want of opportunity for investment, or lack of attractiveness or insufficient faith in the opportunities that offer, may lead individuals to hoard. Ignorance, indifferent means of communication, and a dozen other causes explain the habit of, or tendency to hoarding. The hoarding of money was quite common in England up to the middle of the last century. In some parts of France the practice still continues, partly because of the French banking system, and partly because of a general distrust in the powers that be. In Germany a lot of hoarding still goes on; whilst in South Eastern Europe, in consequence of the Balkan War, everybody who can, has recently been hoarding money. Sensible, hardheaded America, even, is not above the habit: and whenever there is a financial crisis in the United States—and such things are not uncommon—there is generally a disappearance of metallic money in different parts of the country. At the present moment, with no financial crisis in sight, the democratic Government of the peace-loving Yankee *hoards over £250,000,000 in gold—more, it is believed, than either militant Russia or mail-fisted Germany.*

If, then, some of India's old-world Princes, with the customs and traditions of centuries behind them, or a few millions of our hard-working Indian peasants living perhaps scores of miles from a railway, and even further from a good bank, err in hoarding an unnecessarily large amount of ready cash, they err in very good company. Still, let it be freely admitted, they do err. In Great Britain communications have been very greatly improved and the general level of knowledge and understanding considerably raised, in the last fifty years. So, too, in the same period, immense strides have been made in the business of banking in England. The habit of hoarding has in consequence practically died out in Great Britain. Here it is that India must profit by the experience of the United Kingdom. Government in India is now thoroughly reliable and stable. Communications are yearly being improved and extended, whilst education is spreading in all directions. Let India then hurry on with her banking development. This advance is *now* most important and should receive the closest attention.

The chief business of a modern bank is—

(1) To take charge of the public's spare cash.

(2) To lend to those who are actively engaged

in commerce and nation-building, such capital as they require; and

(3) To transfer cash from one person to another—from one city to another—and from one country to another as economically as possible, and with the minimum risk.

This is business of a kind which the peoples of India can carry on successfully and with a maximum of advantage and profit to all concerned. The first thing to do is to persuade every Indian who hoards cash in his own house, to deposit it with some good shroff or bank who will give him a fair rate of interest for his money. In this way the owner of the cash will be relieved of anxiety and will receive a regular income from his hoard. The shroffs and banks who accumulate these deposits will be able to lend the money to all who can produce good security. Thus, India's growing trade and industries will be fructified with ample supplies of cheap capital that will, in its turn, enable those industries and trades to deal with the public, in and out of India, in good products at an economical cost.

Already splendid progress has been achieved. I give below a list of some Indian banks that are doing good work for India. Many of these banks are controlled by purely Indian brains, whilst

some are conducted by a combination of Indian and English (or more probably, Scotch) partners. Two or three are under solely European management:—

(1) Ajodhia Bank, Ltd., Fyzabad.
(2) Allahabad Bank, Ltd., with twelve Offices in India.
(3) Allahabad Trading and Banking Corpn., Ltd., Allahabad.
(4) Alliance Bank of Simla, Ltd., with thirteen Offices in India.
(5) Bank of Bengal, with twenty-four Offices in India.
(6) Bank of Madras, with sixteen Offices in India.
(7) Bank of Bombay, with fourteen Offices in India.
(8) Bank of Behar, Ltd., Bankipore.
(9) Bank of India, Ltd., Bombay.
(10) Bank of Multan, Ltd., Multan.
(11) Bank of Rajputana and Punjab, with seven Offices in India.
(12) Bank of Rangoon Ltd., Rangoon.
(13) Bank of Upper India, Ltd., with eleven Offices in India.
(14) Beopar Sahayak Bank, Ltd., Meerut.
(15) Benares Bank, with three Offices in India.
(16) Bengal National Bank, with two Offices in India.
(17) Bhowanipur Banking Corpn., Calcutta.
(18) Bhargava Commercial Bank, Ltd., Jubbulpore.
(19) Bombay Central Co-operative Bank, Bombay.
(20) Bombay Merchants' Bank, Bombay.
(21) British India Bank, Allahabad, with two Offices in India.
(22) Central Bank of India, Ltd.
(23) Co-operative Hindustan Bank, Calcutta.
(24) Credit Bank of India, with seventeen Offices in India.

(25) Eastern Banking Corpn., Calcutta.
(26) Gujrat Bank, with two Offices in India.
(27) Indian Bank, Ltd., Calcutta.
(28) Indian Co-operative Bank, Ltd., Cawnpore.
(29) Indian Specie Bank, with nineteen Offices in India and one in London.
(30) Karachi Bank, with seven Offices in India.
(31) Kashmir Bank, Ltd., of Fyzabad.
(32) Kathiawar and Ahmedabad Banking Corpn., with twelve Offices in India.
(33) Kayestha Trading and Banking Corpn., with eleven Offices in India.
(34) Lahore Bank, Ltd., Lahore.
(35) Marwar Bank, Ltd., Amballa.
(36) National Financing Corpn., Bombay.
(37) Orient Bank of India, Ltd., Lahore.
(38) Oudh and Commercial Bank, Ltd., with three Offices in India.
(39) Peoples' Bank of India, Ltd., with sixty-four Offices in India.
(40) Pioneer Bank, Bombay.
(41) Poona Bank, Poona, with two Offices in India.
(42) Punjaub Banking Company, Ltd., with fifteen Offices in India.
(43) Punjaub National Bank, Ltd., with eleven Offices in India.
(44) Punjaub and Sind Bank, Ltd., with five Offices in India.
(45) Sind Bank, Ltd., with ten Offices in India.
(46) Upper Burma Central Co-operative Bank, Ltd., Mandalay.
(47) Upper India Insurance and Banking Co., Ltd., Benares.

In addition to the above, there are about

407 small banking and money-lending businesses registered in India under the Indian Joint Stock Companies Act (most of them in the Madras Presidency), and also innumerable private bankers and money-lenders—*Marwaris, shroffs, banyans, bunias,* etc., with whom the majority of the people have frequent dealings.

Quite apart from all the above purely local banking developments are the great British and Foreign Exchange Banks (i.e., Banks with headquarters elsewhere than in India), all of whom accept deposits, lend money, and buy and sell bills and telegraphic transfers. They are as under:—

(1) Chartered Bank of India, Australia and China, with seven Offices in India.
(2) Comptoir National d'Escompte de Paris, Bombay.
(3) Cox & Co., with six Offices in India.
(4) Delhi and London Bank, with seven Offices in India.
(5) Deutsch-Asiatische Bank, Calcutta.
(6) Eastern Bank, with two Offices in India.
(7) Hong-Kong and Shanghai Banking Corporation, with four Offices in India.
(8) International Banking Corporation, with two Offices in India.
(9) Mercantile Bank of India, with nine Offices in India.
(10) National Bank of India, with sixteen Offices in India.
(11) Russo-Asiatic Bank, with three Offices in India.
(12) Yokohama Specie Bank, with two Offices in India.

There are, no doubt, other good banks in India

whose names and resources are unknown to me. The combined resources of all the banking concerns in India, private as well as joint stock, from capital, reserves and deposits must be very great. And more Indian banks are coming into existence every year. Such developments can only have the happiest results; for whilst the necessity for hoarding grows less every year, the money formerly hoarded is now being placed on deposit with bankers, and India's resources in the way of cheap capital are year by year becoming correspondingly greater.

A few words of warning are here necessary. When banking and credit spinning were first developed on a large scale in Great Britain, many failures and disasters occurred owing to reckless issues of credit and the absence of sufficiently substantial monetary reserves against liabilities. India may undergo similarly painful experiences unless her banking pioneers exercise the greatest caution and restraint. Too much care cannot be taken to guard against any loss of public confidence, especially in the matter of metallic reserves. Note, in this connection, the cash balances held against the deposits in the following table. (The figures refer to Indian banks with a paid-up capital and reserve of *at least* five lakhs of rupees.)

INDIAN JOINT STOCK BANKS.

Year.	No. of Banks.	Capital and Reserve.	Deposits.	Cash Balances.
		£	£	£
1890	5	340,000	1,810,000	370,000
1895	9	630,000	3,780,000	640,000
1900	9	850,000	5,380,000	790,000
1905	9	1,080,000	7,990,000	1,160,000
1906	10	1,270,000	7,700,000	1,000,000
1907	11	1,950,000	9,340,000	1,300,000
1908	14	2,060,000	10,840,000	1,630,000
1909	15	2,360,000	13,660,000	1,860,000
1910	16	2,510,000	17,110,000	1,870,000

These cash balances are decidedly slender compared to the rapidly expanding volume of deposits. Possibly these cash reserves (although they probably include balances deposited with other banks) are adequate for the moment in these times of prosperity and widespread confidence; but when a period of adversity and suspicion sets in—and such periods come as surely as night follows day—the public demands for ready cash may easily overtake the ability of the banks to supply it, and then panic and a financial crisis are likely to supervene.

In this connection the position of the Exchange Banks in India is worth studying. Here are the figures of eleven of the banks:—

THE EXCHANGE BANKS IN INDIA.

Year.	Deposits in India.	Cash Balances in India.
	£	£
1890 . .	5,000,000	2,300,000
1895 . .	6,900,000	1,800,000
1900 . .	7,000,000	1,600,000
1905 . .	11,400,000	2,500,000
1906 . .	12,100,000	3,400,000
1907 . .	12,800,000	3,700,000
1908 . .	13,000,000	2,500,000
1909 . .	13,500,000	2,800,000
1910 . .	16,200,000	2,900,000

The Exchange Banks are not increasing their cash balances in proportion to their increased deposits, it will be noticed, probably because they know that as the India Office at present conducts its weekly sales of Council Drafts, they can always be certain of purchasing additional supplies of rupees from the Secretary of State at a few hours' notice, if urgently needed. Even so, the cash balances held are *much larger than those held by the leading Indian Banks.*

The Presidency Banks are in a still stronger position than the Exchange Banks, so far as cash balances are concerned, as the following figures very clearly show :—

THE THREE PRESIDENCY BANKS.

Dec. 31	Capital, Reserve.	Deposits.	Cash Balances
	£	£	£
1870	2,412,000	7,884,000	6,646,000
1880	2,702,000	7,603,000	4,943,000
1890	2,984,000	12,237,000	8,645,000
1900	3,731,000	10,458,000	3,363,000
1910	4,607,000	24,387,000	7,567,000
1911	4,650,000	25,890,000	9,430,000
1912	4,900,000	26,530,000	8,070,000

If we compare the proportions of the cash balances to the deposits of the three classes of banks included in the above tables, we find—taking the figures of the latest dates—the results to be as follows:—

RELATIVE MAGNITUDE OF CASH RESERVES.

The Indian Banks hold about 11 per cent. of their deposits in cash.

The Exchange Banks hold about 18 per cent. of their deposits in cash.

The Presidency Banks hold about 30 per cent. of their deposits in cash.

Although the proportion of cash balances to deposits is not, of course, the only (or even the chief) gauge by which we measure the soundness of any given banking institution, it is nevertheless a very important indication of the way in

which a bank management is conducting its business, and of one of the risks that the bank is regularly running. The percentages given above reveal a weak spot in the methods of the Indian banks to which Indian bankers and Indian depositors would do well to give immediate attention. The point is the more important because it is everywhere recognized that the cash reserves of the London money market (wherein most of India's spare cash and monetary reserves have been merged), are themselves very slender in comparison with the immense volumes of credit balanced thereon—so much so that several of London's leading bankers are at present taking counsel among themselves as to the best way of increasing their own cash reserves. India's bankers have not yet earned that world-wide reputation for sobriety and security which is the chief asset of London's great financiers, and it behoves them, therefore, to be doubly cautious now, at the beginning of their careers, and to study most closely the many difficulties through which the bankers of Great Britain have passed, so that India may benefit to the utmost by England's experiences.

There is one other matter which may be briefly referred to here. With the raising of India's currency system to the level of that of Great

Britain and of all the other leading nations in the world (i.e. Open, Free Gold Mints and a full-value gold currency), and with the reformation of the India Office's present erratic methods of managing India's finances, both of which developments are now well in sight, a suggestion has been put forward from London—the home of the Empire's bankers—that a new Indian State Bank should now be created that would absorb (or amalgamate) the three Presidency Banks, manage India's Gold Reserves and Paper Currency, and afford to the Indian people greater facilities than they at present enjoy by means of the new Bank's combined and enlarged capital. This proposed State Bank, it is suggested, might have a branch (or its headquarters?) in London. In connection with this proposal, it is necessary to point out two things. Firstly, the Presidency Banks are very well able to manage their own business without State guidance, or assistance from outside; and secondly, the Government of India are also very well able to manage their Gold Reserves, their Paper Currency and their Paper Currency Reserve without assistance from London. (Indeed, the only serious irregularities that have occurred with these Reserves, have been perpetrated by the India Office, presumably under the advice of interested parties in London).

There are other considerations, too, which we must on no account overlook. As the writers in England who have recently revived this old idea of a great State Bank for India are clearly unaware of some of these considerations, it will be well to record them explicitly.

India, it must be remembered, is as large as all Europe, excluding Russia, and supports as many divergent peoples and interests. He would be a bold man who suggested a "State" Bank of Europe to absorb the leading banks of Paris, Berlin, Vienna, etc. Similarly, the theorist, or the practical London banker even (with no knowledge of India), who believes it possible to amalgamate the discordant elements of the Bengal, Bombay, and Madras Presidencies, exhibits an optimism that may arouse enthusiasm in some quarters, but that has very little chance of producing tangible results. Even were these local difficulties easily removable, the wisdom of carrying banking concentration to a degree that, in case of accident, might jeopardise the welfare of an entire Continent, is very questionable. When the proposal was discussed (for the second time) fifty years ago, the then Viceroy (Lord Mayo) pointed out that

". . . It is not for the interest of a State that a great institution of the kind should grow up for all India, the interests

of which may in time be opposed to those of the public, and whose influence at any rate may overshadow that of the Government itself. . . . As regards the interests and convenience of the merchants of Bombay and Madras (Lord Mayo was writing from Calcutta), surely it is only natural that they should prefer separate banks for those important centres of commerce" . . .

These are words of wisdom—as sound to-day as when they were penned.

At the present time, the arguments against a State Bank for India are very strong—far stronger than they were in 1867 or even in 1898 (when the main idea was to provide a bank with a large sterling capital which would assist in maintaining the gold value of the rupee). The Secretary of State, it is true, has allowed the Finance Department of the India Office to undertake private banking work in London with public money drawn from India, on a scale unprecedented in the history of any Government, and with results disastrous to the India Office's reputation in India. This is no reason, however, why this unhealthy growth should be allowed to develop further. On the contrary, all experience points unmistakably to the desirability of Government having as little as possible to do with the foreign exchanges, or with the management of the metallic currency and the public's requirements thereof.

The arguments against the creation of a great State Bank for India may be summarized thus :—

(1) In a Continent of the magnitude and diversity of interests and development of India and Burma, it is not expedient for Government to place all its eggs in one basket, or to allow private interests to attempt to control the banking business of the whole country—from Peshawar to Tuticorin and from Persia to Siam—from one central point such as, say, Calcutta, or Delhi. Indeed, it is doubtful whether, in practice, such a wide control could be efficiently and satisfactorily exercised.

(2) The present arrangement by which the State Paper Currency (about £44,000,000) is issued and managed by a State Paper Currency Department, and the profits on this currency (about £9,300,000 of the Reserve against the Paper Currency is at present invested in interest-bearing securities) are received by the State, is a step in advance of the private bank-note system of England, and a great source of strength to the Government of India and to the public. To hand this business over to a State Bank would be a very retrograde step, and one that would greatly weaken Government's position in India.

(3) In view of the facts that (*a*) it is everywhere agreed that the gold reserves held by

London's bankers are remarkably slender, and (*b*) no party-system type of Government will tackle this problem and compel the great bankers by legislation to hold larger cash reserves, the practice of holding *two* metallic reserves in a great Continent such as India—one Reserve by Government against its Paper Currency, and another by the bankers against their current liabilities—is a source of strength to India which England's Chancellor of the Exchequer might do worse than copy. The abolition of one of these Reserves that would probably follow on the handing over of the Indian Paper Currency to a State Bank, would reduce India's financial strength, and leave the Government of India entirely at the mercy of the Directors of the proposed State Bank.

(4) For the Government of India to place the whole of its financial resources—floating balances, Paper Currency Reserve and Gold Standard Reserve—in the hands of one institution would be the reverse of prudent. The existence of three Presidency Banks (with 54 branches in all parts of the Continent), to make no mention of dozens of other reliable financial institutions in India, makes it very easy for the Government of India to employ its spare cash balances and any other part of its liquid funds to the very best advantage, since the splitting up and deposit

or loan of its free resources in three or more different directions means the maximum profit with a minimum risk to Government.

The only grounds on which the formation of a great State Bank in India could now be based, would be the necessity in the public interest of taking out of Government's hands the management of the Paper Currency, the Gold Standard Reserve, and the Treasury Balances. If we may judge by the crude and strangely ill-informed ideas of currency management that have recently found expression in Calcutta and Madras—in the press and by representatives of the mercantile community—such a transfer of monetary and financial control might indeed be, for India, a case of "out of the frying-pan into the fire." Apart from this consideration, however, with the regular use of gold as currency in India and the accumulation of a great reserve of gold in the Paper Currency Department, the necessity for maintaining a Gold Standard Reserve will shortly disappear altogether; the Paper Currency Reserve had always been well managed by the Government of India until London financiers took charge of the Finance Committee of the India Office and removed portions of the Reserve to London; whilst the Treasury Balances which have, in truth, been sadly neglected by the Government of India and grossly abused by the

India Office, will undoubtedly be utilized wisely after the Royal Commission on Indian Finance and Currency, now sitting, has made its Report.

A State Bank could probably encourage an increased use of notes in India more effectively than the existing Paper Currency Department. But seeing that the note circulation of India has more than doubled in the last ten years, and is now well over £40,000,000, it seems hardly necessary to create a State Bank for the only object of further stimulating the use of paper money. Rather should India labour to improve her monetary reputation by bringing her metallic currency up to the standard of Great Britain.

What India now wants is *not* a great State Bank, with perhaps an agency (or headquarters) in London, but more *Indian* Banks, created *in India*, by *Indians*, and bringing into use some of that *Indian money* which is at present lying hidden away in the country in unproductive hoards. Such swadeshi banks would accustom the public to the use of the best forms of metallic and paper money, and would, at the same time, be able to afford to Indian trade those supplies of cheap capital without which India's advance must of necessity be considerably handicapped.

CHAPTER VIII

LOOKING FORWARD

It now only remains to recapitulate the lines of argument employed in the previous chapters. India, being one of the largest, richest and most powerful Divisions of the British Empire, merits in every department of her activities the best equipment that human experience is able to give her. And this best equipment includes, of necessity, the best monetary system and the best monetary tools.

Whilst there is unquestionably room for further improvements in the tools and systems adopted by the leading nations of the world, there is no room for question as to the system and tools which are at the present day considered best by Great Britain, by Great Britain's Self-Governing Dominions, and by all the other most advanced peoples of Europe and America. Nor is there any mystery or difference of opinion regarding the reasons that have induced all the most powerful and advanced sections of the human race to

employ coins of gold as their chief, metallic, monetary weapons, and Open, Free Mints as the State Mechanism through which the public obtain automatically such supplies of gold monetary tools as the exigencies of the moment may demand. There is not the slightest necessity, therefore, for India to make further currency experiments of her own, or for her to hesitate for one second before advancing to the same monetary standard as that of England and the rest of the civilized world.

The first thing for India to do is to secure the restoration of THE RIGHT OF FREE COINAGE of which she was temporarily deprived in 1893. The Government of India, on the recommendation of the Indian Currency Committee of 1898, attempted to restore this Right to India in 1899–1902, but eventually abandoned the effort in face of the united opposition of the British Treasury and the London Mint Authorities. In consequence of this unfortunate abandonment of the cardinal feature of our currency system, India's currency and finances have for some years past been abused by irresponsible officials and bankers in London. Budgets have been treated as waste-paper, monetary principles cast to the winds, and India's balances and reserves shuttlecocked here and there as the recommendations of this banker or the idiosyncrasies of that official at the moment

dictated. India's interests often appear to have been the last thing that received consideration. Some of the consequences have been that the India Office by its weekly (and often wholly unnecessary) sales of rupees, at prices which it itself manipulated, has prejudicially affected

(*a*) imports of gold into India,

(*b*) the sterling value of the rupee,

(*c*) the rates of discount in India, and

(*d*) the general level of prices.

Unfortunately these things are not understood by the mass of the people, though the comparatively high rates of interest in India and the alarming rise in the prices of foodstuffs in India are matters that many Indians have noticed. These hardships have undoubtedly been intensified by the deplorable, go-as-you-please system of financial and currency manipulation that has been so much in evidence at the India Office during the last few years.

Happily, the Government of India last year again took up the question of an Open, Free, Gold Mint for India; and though there are indications that London influences are once more creating paper obstacles, there is now every reason to hope that India will this time receive fair play, and that the Supreme Government will shortly raise the great Eastern Division of the

British Empire above the level of Persia, Mexico and China so far as the central feature of its currency system is concerned.

Fortunately, the moment is ripe for India's advance. Twenty years ago, owing to the world's demands for gold greatly outstripping the supplies of the precious metal, its value was yearly increasing—prices were everywhere shrinking. Nowadays the position is completely reversed. Notwithstanding the enormous sums of gold withdrawn from the world's use by the United States of America, by the great military Powers of the Continent of Europe, and by the growing South American Republics, the output from the mines of the world is so enormous (close upon £100,000,000 per annum), that the value of gold is everywhere falling, prices are universally rising. At such a time, there is plenty of gold available for India; and if by her withdrawal and use of a portion of the golden stream, the rapidity of the rise in prices now in progress be in some degree checked, the result will only be simple justice to the scores of millions of small fixed wage-earners in India and elsewhere to whom a rise in the price of food means partial starvation.

We have recently been told that the law of supply and demand when applied to money, and

the automatic State Mint through which gold coins flow as required by the public, represent . . . "a particularly crude form of monetary theory,"[1] and we have been invited to re-enter the study and re-digest the latest outpourings of armchair theorists, currency cranks, and monetary visionaries—European and American, who often contradict each other and envelop the whole subject in a fog of wordy warfare that may leave the inexpert onlooker a long way from his true bearing. We must gently decline the invitation. It is sufficient for our present purpose to point out that the . . . "particularly crude form of monetary theory," . . . which we support and advocate for India, is the theory upon which Great Britain (with its open, gold Mint), and the leading nations of Europe and America base their present currency systems and international monetary dealings. That present practices represent the highest stage of monetary evolution, nobody for a moment imagines. But until the peoples of Great Britain make a further step forward and prove the success of the same to the satisfaction of the world, it would be premature for India to attempt such a movement.

Modern money being in its essence merely a

[1] *Vide* the *Madras Mail* of early April, 1913.

certificate of service performed, the day may possibly come when such certificates will be recorded on paper instead of on gold and silver, etc., and the precious metals be done away with altogether for monetary purposes. Indeed such certificates might be issued by Government in payment for services performed in the building of all permanent public works like canals, roads, bridges, railways, telegraphs, and so on. In this way, public interest-bearing loans could be avoided. The issue of State Paper Money might even be so regulated as to prevent the injustices that at present flow from general movements of prices—upwards or downwards. There seems no reason why State Money (secured by national public works and *not by gold or silver*) should not some day become international. In fact, there is no limit to the developments that are conceivable—when the millennium arrives. Many theorists, college professors, and hard-headed men of business have worked out in great detail the various intermediate stages of development. But, as I have previously pointed out, until Great Britain, Europe, and America have moved another step forward, and have perfected the next stage of currency development to the satisfaction of all concerned, it would obviously be premature to attempt experiments in India, where we are still

behind the monetary systems in operation in the West.

All which being so, let us first try and move forward to the level of Great Britain's monetary standards. Let India advance and take up her position, so far as her currency is concerned, shoulder to shoulder with Great Britain, with the other great Divisions of the British Empire, and with the rest of the civilized world—her chief metallic, monetary tools fashioned of gold, and her main source of supply, *not* somebody else's manufactory on the other side of the world, but her own Open, Free, Gold Mint. Thus equipped, India will not only be a source of financial strength to the Empire at large, but she will be able to hold her own, in monetary matters, with any nation in the world.

PART III

PAST MISTAKES AND THE ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY

CHAPTER IX

THE ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY

THE following is the text of the Royal Commission on Indian Finance and Currency :—

Whitehall, April 18, 1913.

THE KING has been pleased to issue a Commission under His Majesty's Royal Sign Manual, to the following effect :—

GEORGE, R.I.

GEORGE THE FIFTH, by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas, King, Defender of the Faith, Emperor of India, to

Our Right Trusty and Well-beloved Counsellor Joseph Austen Chamberlain ;

Our Right Trusty and Well-beloved Edmund Beckett, Baron Faber;

Our Right Trusty and Well-beloved Arthur, Baron Kilbracken, Knight Grand Cross of Our Most Honourable Order of the Bath; and

Our Trusty and Well-beloved:—

Sir Robert Chalmers, Knight Commander of Our Most Honourable Order of the Bath, Permanent Secretary to the Treasury;

Sir Ernest Cable, Knight, formerly President of the Bengal Chamber of Commerce;

Sir Shapurji Burjorji Broacha, Knight, formerly Sheriff of Bombay;

Sir James Begbie, Knight, Secretary and Treasurer of the Bank of Bombay;

Robert Woodburn Gillan, Esquire, Companion of Our Most Exalted Order of the Star of India, Secretary to the Government of India in the Finance Department;

Henry Neville Gladstone, Esquire; and

John Maynard Keynes, Esquire, Fellow of King's College in Our University of Cambridge, and Lecturer in Economics,

Greeting!

Whereas We have deemed it expedient that a Commission should forthwith issue to inquire into the location and management of the general balances of the Government of India; the sale

in London of Council Bills and Transfers; the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition, and employment of the Gold Standard and Paper Currency Reserves; and whether the existing practice in these matters is conducive to the interests of India; also to report as to the suitability of the financial organization and procedure of the India Office, and to make recommendations:

Now know ye, that We, reposing great trust and confidence in your knowledge and ability, have authorized and appointed, and do by these Presents authorize and appoint you, the said Joseph Austen Chamberlain (Chairman); Edmund Beckett, Baron Faber; Arthur, Baron Kilbracken; Sir Robert Chalmers; Sir Ernest Cable; Sir Shapurji Burjorji Broacha; Sir James Begbie; Robert Woodburn Gillan; Henry Neville Gladstone and John Maynard Keynes to be Our Commissioners for the purposes of the said inquiry.

And for the better effecting the purposes of this Our Commission, We do by these Presents give and grant unto you, or any three or more

of you, full power, at any place in Our said United Kingdom of Great Britain and Ireland, to call before you such persons as you shall judge likely to afford you any information upon the subject of this Our Commission; and also to call for, have access to and examine all such books, documents, registers and records as may afford you the fullest information on the subject, and to inquire of and concerning the premises by all other lawful ways and means whatsoever.

And we do by these Presents authorize and empower you, or any three or more of you, to visit and personally inspect such places as you may deem it expedient so to inspect for the more effectual carrying out of the purposes aforesaid.

And we do by these Presents will and ordain that this Our Commission shall continue in full force and virtue, and that you, Our said Commissioners, or any three or more of you, may from time to time proceed in the execution thereof, and of every matter and thing therein contained, although the same be not continued from time to time by adjournment.

And We do further ordain that you, or any three or more of you, have liberty to report your proceedings under this Our Commission from time to time, if you shall judge it expedient so to do.

And Our further will and pleasure is that you do, with as little delay as possible, report to Us under your hands and seals, or under the hands and seals of any three or more of you, your opinion upon the matters herein submitted for your consideration.

Given at Our Court at *Saint James's*, the seventeenth day of *April*, one thousand nine hundred and thirteen, in the third year of Our Reign.

By His Majesty's Command,

R. McKenna.

The eight chapters which follow, constitute the text of a Note submitted by the author in June 1913 to the chairman of the Royal Commission—the Right Hon. Austen Chamberlain, M.P.

CHAPTER X

THE GENERAL BALANCES OF GOVERNMENT

". . . The location and management of the general balances of the Government of India . . ."

(1) Since 1907 the general cash balances of the Government of India (in India and in London, and excluding the balances of the Gold Standard and Paper Currency Reserves) have grown as under:—

£15,633,744 on the 31st March, 1907
£17,458,679 on the 31st March, 1908
£18,219,381 on the 31st March, 1909
£25,074,522 on the 31st March, 1910.
£30,263,912 on the 31st March, 1911
£30,669,702 on the 31st March, 1912
£27,916,800 on the 31st March, 1913

It will be observed that the cash balance held on 31st March, 1912, was almost double that which was adequate seven years previously.

(2) As far as I am aware, no British Government in any part of the world finds it necessary to maintain such colossal cash balances as those recently held by the Government of India. In Great Britain the Chancellor of the Exchequer,

with annual liabilities far exceeding those of the Government of India, manages to carry on the financial business of Government with a very much smaller balance of cash in the till than that employed in the case of India.[1]

(3) I am convinced that the accumulation of these vast sums of money in the Government Treasuries is wholly unnecessary. They mean that India has for some years been unnecessarily heavily taxed, and that the Budget Estimates have not been framed to correct this over-taxation. In support of this view, I would point out that during the last four years Government have collected revenue in excess of their actual expenditure as under:—

£1,500,677 excess in the year ending 31st March, 1910
£5,897,489 excess in the year ending 31st March, 1911
£4,909,489 excess in the year ending 31st March, 1912
£7,500,000 excess in the year ending 31st March, 1913

that is to say, nearly £20,000,000 more than was actually necessary in four years!

(4) This unnecessary withdrawal of nearly thirty crores of rupees in cash from the earnings and savings and available capital of the people cannot have aided or stimulated India's economic development. On the contrary, in a country that is notoriously handicapped for want of ample

[1] Great Britain's cash balance on 31st March, 1913, was £6,329,160.

supplies of cheap capital, and where the rates of interest and discount rise to heights unknown in any other part of the Empire, this vast transfer of cash to the Government Treasuries can only have left the people correspondingly weakened. It has been, in fact, a serious drain on the resources of the country..

(5) Assuming, however, that the uncertainty of the rainfall over a large part of the continent of India makes it impossible to estimate revenue and expenditure with any degree of accuracy—a fact that is sometimes lost sight of—and that a cash balance of, say, £5,000,000 in excess of what is actually required has been accidentally and unintentionally accumulated, it is, I submit, one of the first duties of Government—especially in such a case as India—to return this money to the public as expeditiously as possible. This can be done in three ways—*directly* by (*a*) reducing taxation and (*b*) budgetting for large deficits, and *indirectly* by (*c*) suspending all borrowing and investing the millions in hand in reproductive works such as railways and canals. In the meantime the spare accumulations of cash in the Treasuries can be freely placed at the service of the public through the agency of India's leading Banks and Financiers.

(6) Unfortunately, none of these courses has

been followed. Instead, an irregular and noxious manipulation of the Treasury balances has been carried out that has given the main benefits of India's accumulated cash to London Bankers and London Financiers rather than to Indian Bankers and Indian Trade. Substantial portions of the Government of India's cash balance have been transferred from India to London; and, there being no legitimate need for the money in London, £15,000,000 of it have been lent out in London to private borrowers on terms that, compared to those current and enforced in India, can only be regarded as a sacrifice of India's interests and grossly unfair to India.

(7) The following figures give an idea of the extent to which Indian money, raised in excess of current requirements in India, has been transferred to, and utilised in, London. The first table shows the cash balances lying in London to the credit of the Government of India on the dates named. (N.B.—These figures are *exclusive* of the Gold Standard and Paper Currency Reserves in London, which themselves run up to a total of over £20,000,000.)

On 31st March, 1908 . . .	£4,607,226
On 31st March, 1909 . . .	£7,983,898
On 31st March, 1910 . . .	£12,779,094
On 31st March, 1911 . . .	£16,693,990
On 31st March, 1912 . . .	£18,390,013

The next table gives particulars of the private firms to whom the India Office in 1912 lent some of the Government of India's spare cash:—

Sums of over £1,000,000 lent to private firms:—	
Samuel Montagu & Co.	£1,050,000
National Discount Company	1,100,000
Union Discount Company of London	1,150,000
Sums of £500,000 and over lent to private firms:—	
Sheppards & Co.	£500,000
Hohler & Co.	500,000
Chartered Bank of India, Australia and China	500,000
Brightwen & Co.	500,000
Alexanders & Co.	650,000
Reeves, Whitburn & Co.	700,000
Wedd, Jefferson & Co.	750,000
Other loans to private firms:—	
Allen, Harvey & Ross	£100,000
Anglo-Egyptian Bank	200,000
Baker, Duncombe & Co.	200,000
Biedermann & Co.	100,000
Blydenstein & Co.	150,000
Booth & Partridge	150,000
Bristowe & Head	200,000
Roger Cunliffe, Sons & Co.	450,000
The Eastern Bank	100,000
J. Ellis & Sons	200,000
Gillet Bros. & Co.	150,000
Haarbleicher & Schumann	150,000
King & Foa	200,000
Laurie, Millbank & Co.	100,000
Lazard Bros. & Co.	250,000
Lyon & Tucker	100,000
Matthey Harrison & Co.	100,000

Mercantile Bank of India	£250,000
L. Messel & Co.	100,000
National Bank of New Zealand . . .	150,000
Ryder, Mills & Co.	250,000
Henry Sherwood & Co.	50,000
Smith, St. Aubyn & Co.	250,000
Steer, Lawford & Co.	150,000
Tomkinson, Brunton & Co.	150,000

To secure the loan of State money from the India Office, most private borrowers are obliged to lodge first-class securities, such as Indian Railway Stock, Indian Sterling Bills, British Treasury Bills, Bonds and Stocks and such like. The available supply of these securities, however, being limited, private borrowers were unable to relieve the India Office of all the millions sterling that it had to spare; and in 1909 recourse was had to the seven leading London Bankers, whose names are also on the India Office's list of approved borrowers. The following statement gives the names of those bankers with whom deposits of Indian State money were made in 1912 *without security*:—

London, County & Westminster Bank .	£1,800,000
Glyn, Mills, Currie & Co. . . .	1,550,000
London Joint Stock Bank . . .	1,500,000
National Provincial Bank of England .	1,300,000
Union of London and Smith's Bank .	1,250,000

The rates of interest secured for the loan of, in

all, over fifteen millions sterling (£15,000,000) of Indian State money have often been only $2\frac{1}{2}$ to 2 per cent., and even less, barely one-half of the rate of interest which many of the securities lodged at the India Office against the loans of public money, were yielding.

(8) It has been explained, on behalf of the India Office, that the loans are usually made for periods of three to five or six weeks only, and that the apparently low rates of interest earned are, in fact, the rates of interest current in London for short period loans. In reply, it is necessary to point out that to onlookers in India, it is by no means clear why, with a floating cash balance of at least £10,000,000 in excess of what was likely to be required, the India Office continued for years to lend out this spare cash for such short periods as three to five or six weeks. The following table gives the total cash transactions (new loans and repayments, figures approximate) since 1908 of ten only of the principal private borrowers:—

Alexanders & Co.	borrowed and repaid in all about	£1,000,000 per annum since 1908.
Brightwen & Co.	,,	£1,300,000 per annum since 1908.
Bristowe & Head	,,	£900,000 per annum since 1908.
Cunliffe, R., Sons & Co.	,,	£1,000,000 per annum since 1908.
Hohler & Co.	,,	£1,200,000 per annum since 1908.

Hopkins & Giles borrowed and repaid in all about	£1,300,000 per annum since 1908.
Reeves, Whitburn & Co. ,,	£1,400,000 per annum since 1908.
Samuel Montagu & Co. ,,	£2,000,000 per annum since 1908.
Sheppards & Co. ,,	£1,000,000 per annum since 1908.
Wedd, Jefferson & Co. ,,	£1,500,000 per annum since 1908.

The above borrowers appear to have been the recipients of what amounts practically to standing loans, totalling in all several millions sterling, for a period of *over five years.* If this money has been lent out in short period loans of three to six weeks and the loans regularly and continuously renewed—as appears to have been the case—then the practical upshot has simply been to give to the borrowers what amounts to *permanent* loans at rates ordinarily payable for *short-term* loans. Borrowers have apparently pocketed the difference between the rates yielded by the securities lodged by them and the rates at which they could obtain loans of public money from the India Office. In the meantime the Indian taxpayer has lost the benefits that were clearly his due.

(9) Concurrently with the holding of a cash balance many millions sterling in excess of legitimate requirements, and the regular disposal of most of this balance by short period loans that, by constant renewals, became to all intents and purposes permanent loans on the easiest imaginable

terms for the borrowers, the India Office has not only omitted to pay off as much floating debt as it could, but it has in effect borrowed back some of the money which it has been lending out so freely. Thus, with the huge cash balances in hand quoted below, and large sums of money (portions of these same balances) lent out on short-term loan rates to private firms in London, the India Office has apparently borrowed temporarily the following sums in the London money market:—

Cash Balance in Hand.		Yet Borrowed as Under.	
1910. 1st April.	£12,779,094	April	£1,000,000
		June	2,500,000
		Dec.	1,500,000
1911. 1st April.	£16,696,990	April	£1,000,000
		June	2,000,000
		Dec.	1,500,000
1912. 1st April.	£18,390,013	April	Nil
		June	Nil
		Dec.	Nil

So fixed have the India Office habits of lending and borrowing now become that the Financial Department of the Office appears to lend out money and borrow back money *almost simultaneously!*

(10) With such colossal sums of the Indian taxpayers' money lying uselessly in London and only earning comparatively trifling rates of inter-

est, it might be thought that substantial portions of this money could have been applied to the construction of reproductive capital works in India, thus avoiding the necessity of paying further sterling interest charges, as recommended by the Indian Currency Committee of 1898. Yet this policy does not appear to have been actively developed.[1] On the contrary, the same old customary sterling borrowing for capital works has been indulged in, as though the huge cash balances in London did not exist. Last year, notwithstanding the vast sums of public money at the India Office's disposal, and in spite of the fact that the London money market was faced with more demands for capital than it was able conveniently to meet, an effort was made to borrow £3,000,000 in London on behalf of the Government of India. The money, it is true, was produced—by the underwriters—and at a great expense to the Indian taxpayer. It would be interesting to know if any of this last India Stock was at once lodged at the India Office as security against short period loans of Indian money. The point is an interesting one, as the public in India have noticed that a portion of the security lodged last year against the £1,050,000

[1] The Government of India *have* spent large sums from their surplus revenues on capital works, but not sufficient.

borrowed by Messrs. Samuel Montagu and Co. consisted of India Sterling Bills.

(11) I am strongly of opinion that where the proceeds of taxation in India yield more than the estimated requirements of the year, the surplus should be utilized in India for the benefit of India, and not transmitted to London, there to be lent out on easy terms to cosmopolitan private borrowers, who have little or no direct interest in matters Indian.

(12) Remembering that the Indian Paper Currency and Paper Currency Reserve are under State control, and therefore easily available to Government in times of grave national emergency, I am of opinion that the Government of India's floating cash balance ought, in the interests of economy, to be kept down to a maximum of £10,000,000, of which £3,000,000 might be kept in the Treasury in London, leaving the balance of £7,000,000 (i.e., ten and a half crores of rupees) to be held in the Treasuries and Presidency Banks in India.

(13) As far as I am able to see, £3,000,000 should be ample for the India Office's requirements in London. Should, however, the funds in London unexpectedly run low, then it would be far more economical for the Secretary of State to borrow a little, temporarily, rather than overtax

India, and place the proceeds at the India Office's disposal in case of emergencies.[1]

(14) With regard to the ten and a half crores cash balance in India, as much of this as possible should be placed at the service of the Indian money market, just as is done by Government in England. The balances kept with the Presidency Banks (which balances were originally in the nature of compensation to the banks for the loss of their note circulation after the introduction by Government of a State Paper Currency), should be considerably increased. With the abolition of the gigantic banking business in London, which has by degrees converted the India Office into one of the chief moneylending concerns in the world, the problem of easing the Indian money market by short loans to approved borrowers in India, might be considered. It is common knowledge that the withdrawal and retention in the Government Treasuries of vast sums of cash arising out of the customary collection of the Indian revenues, contributes materially to that severe seasonal tightness of the Indian money market which so handicaps Indian

[1] "The expense (of borrowing in London) even if the Secretary of State had to pay a rate of interest approximate to Turkey or China, would be much less than the expense of maintaining a very great reserve against unlikely emergency . . ." *Vide* Professor J. M. Keynes' *Indian Currency and Finance*, page 156.

merchants in their ordinary business dealings. Indeed, Indian sellers are sometimes forced to part with their produce owing to their inability to pay the very heavy rates of interest current in the cold weather. It should be Government's business to manage its general balances so as to avoid as far as possible consequences of this kind.

(15) To summarize, I am of opinion (*a*) that the cash balances recently held by the Government of India have been far too large; (*b*) that the location of £12,000,000 to £15,000,000 of the general balance in London since 1911 has been altogether unnecessary, and has involved a serious drain on India; and (*c*) that the management of the balances by the India Office has been wasteful and unbusinesslike in the extreme, with the result that India has lost heavily. The remedies that I would now propose are:—

(*a*) That the maximum cash balance of the Government of India should henceforth be restricted to £10,000,000.

(*b*) That not more than £3,000,000 of this balance should be held in London by the India Office; and

(*c*) That all Treasury balances in India that can be spared, should be placed at the service of the public through the agency of the Indian money market.

CHAPTER XI

THE SALE OF COUNCIL DRAFTS

. . . "The Sale in London of Council Bills and Transfers." . . .

(1) With the closing of the Indian Mints to the free coinage of silver in 1893, the necessity for selling rupees *by auction* largely disappeared. The old procedure was, however, maintained, and weekly auctions in London of Council Drafts on India were held as before. In 1899 the Indian Currency Committee having recommended a *pucca* Gold Standard for India with a gold currency (sovereigns to be legal tender for Rs. 15), and Open Mints for the free coinage of gold, and the Secretary of State and the Government of India having both accepted these recommendations as being the best possible development of the Indian currency system, the old practice of auctioning weekly the rupees accumulated in the Indian Treasuries became entirely obsolete. But the India Office still carried on the system, and the weekly sales of Council Drafts continue till this

day. Moreover, in recent years the auctions have been conducted with such an entire disregard of everything that has gone before that they have become one of the main obstacles in the way of the successful carrying out of some of the more important recommendations of the Indian Currency Committee. Indeed, so erratic and unintelligible have the proceedings now become that many of the public in India have been forced to the conclusion that the India Office's chief concern in conducting the weekly auctions of Council Drafts is to manage the sales in such a way as (*a*) to remove as much Indian State money as possible from India to London for the use of the London money market; and, at the same time, (*b*) to delay for as long a period as possible the establishment of the gold currency in India recommended by the Indian Currency Committee of 1898. The business of providing the Secretary of State with the means of meeting the Home Charges *on the best possible terms for India* seems to have been relegated to quite a secondary position.

(2) And yet the first and only object of the weekly sales of Council Drafts was, and should remain, the provision in London out of the revenues collected in India of the sums necessary to enable the Secretary of State to meet India's

Home Charges *on the best possible terms for India.* With the Indian Mints open to the free coinage of silver, and the sterling value of the rupee depending entirely on the sterling price of silver in London and New York, no better means of paying India's sterling debts could possibly have been devised than weekly auctions in London of a portion of the stocks of rupees accumulated in the Treasuries in India in the course of the collection of the revenues by Government. The competition of the public at these weekly auctions enabled Government to secure the best possible sterling prices for such rupees as were auctioned, and the system was therefore admirable in every way.

(3) With the closing of the Indian Mints to the public in 1893, the position completely changed. The public were no longer able to obtain supplies of rupees in India in exchange for silver. The only source of supply was the Government Treasuries. The Secretary of State was in the position of a monopolist with an article for sale for which there was a large demand. He could ask and obtain any price in reason that he pleased for his wares. Buyers were plentiful; sellers there were none, except himself. Who in such circumstances would dream of putting his goods up *for auction*, except with the object of securing

his own price *with the least possible delay*? The Secretary of State's price was 1*s.* 4*d.*, and, with a little firmness and courage, he could easily have obtained 1*s.* 4*d.* Yet he sacrificed his business reputation (and also India's interests) by accepting for years almost any price that the public cared to offer him. Not until the public themselves voluntarily increased the prices that they offered, did the India Office secure the 1*s.* 4*d.* that it wanted from the first. From 1893 to 1898 was a period of continuously bad management so far as the sales of Council Drafts were concerned—"a long series of economic errors," to use the words of Professor Dunning MacLeod.

(4) The Indian Currency Committee of 1898 accepted Professor Dunning MacLeod's advice for the improvement of India's currency system almost in its entirety, and their recommendations for the re-establishment of a gold currency in India with Open Free Mints for the coinage of gold were, as far as they went, exactly as suggested by the learned professor—the sovereign to be unlimited legal tender at the rate of one sovereign for fifteen rupees, the Indian Mints to be made branches of the Royal Mint in London, as the Australian Mints are, for the free coinage of gold (sovereigns and half-sovereigns, Professor MacLeod suggested), and the silver token

coinage to be increased or restricted only as might be found necessary in the people's interests. Professor MacLeod considered a gold standard without a gold currency unthinkable, and he made various suggestions to encourage the inflow and use of gold as currency in India. The Indian Currency Committee also looked forward to a gold currency as an essential part of the scheme for improving India's monetary system. Government accepted the Indian Currency Committee's recommendations, and the Government of India at once attempted to carry them out.

(5) In face of the above facts, the principles that ought to have guided the Secretary of State in Council with regard to the sales of Council Drafts are perfectly clear. After Government's acceptance of the Indian Currency Committee's Report

(*a*) No Council Drafts should have been sold at less than 1*s*. $4\frac{1}{8}$*d*. per rupee, it being the India Office's clear duty to obtain the *best possible price for all the rupees sold.*

(*b*) As soon as a sum equivalent to the total of the Home Charges had been realized, not another rupee should have been put up for auction until the proportion of sovereigns in the Indian currency had

exceeded public requirements, and there was a demand for more token currency.

(*c*) When it became necessary to provide money in London for the purchase of silver for the manufacture of token currency, further sales of Council Drafts should have been made for this special purpose, but not at a lower rate than specie point for gold imports—then about 1*s.* 4 5-32*d.*

(*d*) With the exception of sales of Council Drafts to provide the means in London wherewith to pay (1) the Home Charges and (2) the cost of silver for token coinage, not a rupee should have been put up for auction in London.

The observance of these principles is essential, I submit, if Government's acceptance of the Indian Currency Committee's Report of 1899 is to be loyally acted upon and carried out by all Government Departments. As a matter of fact, the India Office has not acted upon a single one of these principles. On the contrary, in its sales of Council Drafts since 1899 the India Office has violated every one of them in that it has

(*a*) Sold Council Drafts at less than 1*s.* $4\frac{1}{8}$*d.* (sometimes at less even than 1*s.* 4*d.*), thus gratuitously accepting lower prices

than it need have done for its drafts, and to this extent needlessly sacrificing India's interests.

(*b*) Accumulated huge sums of Indian State money in London greatly in excess of the Home Charges. There being no legitimate need whatever in London for this money, India has been wrongfully deprived of substantial portions of its balances and reserves, to the loss and danger of Indian interests.

(*c*) Sold Council Drafts for the provision of money for the purpose of silver in London for token coinage at rates below gold import point, thus depriving the Gold Standard Reserve of its full share of profit on the coinage of new rupees.

(*d*) Checked the flow of gold to India and actively encouraged the increased use of the depreciating silver token currency by selling Council Drafts at rates well below gold import point.[1]

The sales of Council Drafts by the India Office since 1899 have thus been most unbusinesslike

[1] "This was done on a large scale in 1905–6 and 1906–7." . . . *Vide* Professor Keynes' *Indian Currency and Finance*, page 116.

and unsatisfactory, from the point of view of Indian interests.

(6) In the course of his evidence before the Indian Currency Committee of 1898, and in answer to an inquiry as to the length of time that might be required for the establishment of a gold monetary standard with a gold currency in India, Professor Dunning MacLeod replied that . . . "if Government are really in earnest and put their hearts into it, and, especially, get the banks to assist them, I do not see why it should not all be done in two years." . . . Over fourteen years have passed since that opinion was given, and yet India is only now using sovereigns freely as currency. One of the chief causes of the delay has been the active obstruction of the Finance Department of the India Office in its grossly excessive sales of Council Drafts at rates that have directly encouraged the further use of silver tokens and so checked the inflow and use of sovereigns as currency.

(7) I am strongly of opinion that these abuses of the Council Draft system should be terminated forthwith. The sales of Council Drafts should be strictly limited to the sum required to meet the Home Charges, and no allotments should in any circumstances be made below, say, 1*s.* 4$\frac{1}{8}$*d.* to 1*s.* 4 3-32*d.*—i.e., about the present equivalent

of specie point for gold imports into India. The sum required in London for the Home Charges having been realized, no further sales of Council Drafts should be made except for the express purpose—duly notified to the public—of purchasing metal for the manufacture of further token coinage. Such special sales of . Council Drafts should not be made at anything below specie point for gold imports. Only by thus regulating the sales of Council Drafts can the India Office's noxious interference with (1) the foreign exchanges, (2) imports of gold, (3) local discounts, and (4) general price levels be checked.

(8) Further, I am of opinion that when selling Council Drafts on India for the Home Charges and for providing the means for the purchase of the metal required for supplementing the token coinage, the practice of confining such drafts to the Treasuries at Calcutta, Bombay, and Madras needs extension. The time has now come for increasing the facilities enjoyed by the public in this connection, and I would urge that Council Drafts on the Teasuries at Delhi and Karachi be made available henceforth. A system that has remained unchanged for over half a century may now well undergo revision and extension.

CHAPTER XII

THE RE-OPENING OF THE INDIAN MINTS

. . . "**The measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898.**" . . .

(1) The most important, because vital, portion of the Indian Currency Committee's recommendations is contained, in my opinion, in Section 54 of the Report:—

. . . "We consider that the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint. The result would be that under identical conditions the sovereign would be coined and would circulate both at Home and in India." . . .

(2) The India Office and the Government of India at once endeavoured to give effect to this

recommendation; but the Deputy Master of the Mint in London, by a Report that was in one respect historically imperfect, and in another economically unsound, appears to have misled both the Treasury and the India Office, with the result that the Government of India after two years of correspondence with the Home authorities (during which every departmental detail asked for by the London Mint Master was conceded), at length—25th December, 1902—decided to postpone the scheme until a more favourable opportunity should arise. The consequences of that unfortunate step have been the complete subjection of India's currency and finances to official "management" from London, and the chaotic condition of affairs that has led to the present investigation.

(3) Last year the Government of India again represented to the Secretary of State, the paramount necessity of re-opening India's Mint to the public. The free coinage of gold in India was again urged, but owing, apparently, to some difference of opinion between the Government of India and the India office regarding the value of the gold coin to be struck and the authority under whose instructions the new Indian Gold Mint should work, the matter is again in abeyance, and India still continues to lack the central feature of

a modern currency system, namely, an Open, Free, Gold Mint.

(4) I am strongly of opinion that the Bombay Mint should be opened forthwith to the free coinage of gold, as specifically recommended by the Indian Currency Committee fourteen years ago. Further, in view of the facts that sovereigns already

(*a*) are legal tender in India,

(*b*) are being regularly imported into India,

(*c*) are now in circulation to the extent of over £40,000,000 in India, and

(*d*) are daily growing in popularity in India,

I am of opinion that the sovereign is the best gold coin for use as currency in India. If, however, the departmental difficulties of coining sovereigns in Bombay be absolutely insuperable by Government, then an Indian sovereign of exactly the same size, weight, and fineness as the British sovereign is, in my opinion, far preferable to a new Indian gold coin of the value of ten rupees.

(5) The recommendations of the Indian Currency Committee, which I consider next in importance, are contained in Sections 54, 59, and 60 of the Report. Section 54 recommends that the British sovereign be made legal tender and current coin in India. Section 60 recommends that . . . "Fresh rupees should not be coined

until the proportion of gold in the currency is found to exceed the requirements of the public"; whilst Section 59 suggests that . . . "When Government has accumulated a sufficient gold reserve, and so long as gold is available in its Treasury, it might discharge its obligations in gold instead of rupees." . . . These recommendations clearly lay down an active policy for Government with the object of promoting the use of gold as currency, and, if carried out, would go far to place India's token currency on the most satisfactory and stable basis.

(6) The recommendation to make the British sovereign a legal tender in India was at once carried out, but the other recommendations, where not wholly ignored, have been but indifferently observed. The action of the India Office in selling rupees at prices below the equivalent of gold import point, for example, was, as I have already pointed out, a direct incentive to India to use silver token currency in preference to British sovereigns. Nor was this active opposition to the establishment of a gold currency in India counteracted in any way by the Government of India. In reply to an inquiry in May, 1912, by the Karachi Chamber of Commerce as to what steps were being taken by Government to give effect to the recommendations of the Indian Currency Com-

mittee for popularizing sovereigns in India, the Government of India replied (17th June, 1912) that

> ". . . the policy of Government has been, and is, while refraining from taking any steps to force gold on the people, to discharge their obligations in sovereigns *wherever payees so desire.*" . . . (my italics.)

In other words, the policy of Government has been, in effect, to ignore the recommendation of the Indian Currency Committee to . . . "discharge its obligations in gold" . . . and to do nothing in this direction unless the Indian public demanded sovereigns. This "wait-and-see" attitude has, in my opinion, greatly delayed the carrying out of the recommendations of the Indian Currency Committee, and is much to be deplored.

(7) I am of opinion that the period of inactivity in these matters should now be brought to a close, and that the Indian Currency Committee's Report having been accepted by Government, the recommendations contained in that Report should now be acted upon without further delay. The attitude of the Government of India in this connection, namely, to carry out the recommendations *if the Indian public so desire*, seems to me weak and unbusinesslike. I therefore urge

(*a*) That the Bombay Mint be opened at once to the free coinage of sovereigns, the Mint being equipped with an up-to-date refinery capable of dealing promptly and efficiently with the products of the Indian gold mines;

(*b*) That the Government of India now discharge its obligations in sovereigns as far as possible;

(*c*) That no more token coinage except for replenishing wear and tear and loss by export, be manufactured unless and until it be proved that the proportion of gold in the currency exceeds the requirements of the public. (And in this connection the statistics of bygone years and conditions are not, of course, safe guides.)

(8) If Government "put their hearts" into this business, to use Professor MacLeod's expression, India will very soon have a gold currency in active circulation—at the Banks and in the Government Treasuries—somewhere approaching £100,000,000. With such a currency in use, the exchange value of the rupee will be as permanently secured as the exchange value of the English shilling, or the French five-franc piece, or the silver dollar of the United States of America.

And that, too, without the necessity of maintaining any Gold Standard Reserve, or other wasteful and possibly delusive substitute of that kind.

(9) In this connection it is desirable to recall the words of the late Sir Samuel Montagu in 1899. When giving evidence before the Indian Currency Committee, he drew the Committee's attention to the fact that the world's production of gold was then "unequalled." Whilst strongly advocating a gold currency for India, he added: "You would do a service, I think, to Europe if you were gradually to utilize this extraordinary surplus of gold." Asked if he thought that the establishment of a gold standard and currency would have an "appreciably injurious effect on the gold market of the world," Sir Samuel Montagu replied, "I think not." Since this opinion was given, the world's output of gold has almost doubled, and is now on the verge of £100,000,000 per annum. Notwithstanding the enormous sums of gold withdrawn from the world's use by the United States of America, by the great military Powers of the Continent of Europe, and by the growing South American Republics, the value of gold is everywhere diminishing—prices are universally rising. There is ample gold, therefore, to satisfy the world's requirements, including the requirements of India. Moreover, the utilization

of some of this gold by India would tend to arrest the present unhealthy rise in prices, which is by no means wholly advantageous to a creditor nation consisting largely of small, fixed wage earners—such as Great Britain.

CHAPTER XIII

THE GOLD STANDARD RESERVE

. . . "The location, disposition, and employment of the Gold Standard Reserve."

(1) The recommendations of the Indian Currency Committee with regard to the formation of a Gold Reserve are given in Sections 59 and 60 of their Report, and are quite clear and explicit.

. . . "We recommend that any profit on the coinage of rupees should not be credited to revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and ordinary Treasury Balances (Section 60). . . . We regard it as the principal use of a gold reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point; and the Government of India should make its gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable" (Section 59).

(2) The above recommendations are, in my opinion, thoroughly sound and complete; and, had they been acted upon without modification after modification, would have provided that security for the sterling exchange value of the

rupee which is at present lacking in one most important respect so far as the Gold Standard Reserve is concerned.

(3) The most serious and objectionable departures that have been made from the Indian Currency Committee's recommendation are as under :—

(*a*) Instead of *all* the profits on the coinage of new rupees being kept in the Gold Reserve, over a million sterling of these profits has been diverted elsewhere.

(*b*) Instead of such profits as *have* been credited to the Gold Reserve, being held *in gold*, they have been

(1) invested in sterling securities,
(2) converted into and held in silver,
(3) lent out to private borrowers in London.

Out of £22,657,776, only £1,730,000 was held in gold on the 30th April, 1913.

(*c*) Instead of the Gold Reserve being kept entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances, the three are constantly being intermingled at the option of the India Office, so that nobody knows from month to month the exact nature of the reserves. Most of the metallic currency in the Paper Currency

Reserve at present consists of *gold* (the paper currency being redeemable in *silver*), whilst most of the metallic currency in the Gold Standard Reserve is at present composed of *silber* (the object of the Reserve being to supply the public with *gold*). Currency management of this kind has been described as, and in truth is, "sheer muddling."

In addition to these specific departures from the recommendations of the Indian Currency Committee, the India Office has repeatedly failed to secure all the profit it should have done for the Gold Standard Reserve in that it has replenished the token coinage by sales of rupees at absurdly low rates, i.e., at rates well below specie point for gold imports. This matter has been referred to before in paragraph 5, Part II., of this Note.[1] It is now only necessary to repeat that by these sales an altogether unnecessary loss has been incurred at the expense of the Gold Standard Reserve.

(4) Various explanations have been given from time to time for this wholesale ignoring of the Indian Currency Committee's recommendations and of the protests of the Chambers of Commerce and of the Press in India. I have carefully considered these explanations—excuses

[1] i.e. in para. 5 of chapter XI. of this book (*vide* pages 112–3).

I should prefer to call them—from time to time, and I have no hesitation in describing them all as unsound and unacceptable. Moreover, the constant chopping and changing of the composition of the Gold Standard Reserve has not only deprived the public of confidence in the administration of this Reserve, but it has, in my opinion, exposed India to grave danger.

(5) In connection with the general policy of holding the bulk of the Gold Standard Reserve in London, I submit that Government have gone entirely beyond their province in undertaking to provide not only gold for export, but gold *ready delivered at a financial centre on the other side of the globe.* The business of Government, so far as the maintenance of the sterling value of the rupee is concerned, is to provide gold *in India* for export, if required, and not to endeavour to anticipate the requirements of the public by laying down £20,000,000 of India's money in London (or elsewhere) *in advance.* No doubt London is in all probability the centre where the gold, in an economic, financial, or political crisis involving a change in the balance of trade against India, would be required. But Government's duty ends when it provides that gold *in India.* To deposit the bulk of the gold in a centre where the banking community are already, on their own

initiative, considering how they can strengthen their own admittedly slender and inadequate gold reserves, is to expose India to risks and dangers from which she has every right to expect complete protection.

(6) I am strongly of opinion that India's Gold Standard Reserve should be restored to its original name, composition, and location. Let it be called the GOLD RESERVE, and let it be in the main, at any rate, what its name implies, a Reserve of Gold. (No other nation in the world, that I am aware of, holds its gold reserves in securities, silver, and short loans to private borrowers outside its own country.) For these reasons I urge that the bulk of the securities, in which nearly seventeen millions sterling of the Gold Reserve is at present invested, be realized (by degrees, so that severe loss may be avoided), and the proceeds gradually remitted to India, for retention in the Indian Treasuries, *in gold*. That monstrosity, the "silver branch" of the Gold Reserve should be at once abolished, and the four crores eighty-three lakhs of rupees at present held therein be tranferred to the Paper Currency Reserve in exchange for the equivalent in sovereigns. If £7,000,000 be left in London invested in securities it will probably be as much as could be liquidated in a hurry (without heavy loss: and

inconvenience to the London money market), to meet a sudden demand for drafts on the India Office arising out of a failure of the monsoon rains and a consequent change in the balance of trade. Were £7,000,000 insufficient, then gold could be shipped from India to London, and London would no doubt be very relieved to see the metal coming. This sum of £7,000,000 invested in London in securities should be an absolute maximum, and there would be no spare Gold Reserve cash, therefore, in London to be lent out (as at present) to private borrowers.

(7) My reasons for advocating that the bulk of the Gold Reserve be held *in gold, in India*, are these: Great Britain's gold reserves have been for some years notoriously slender almost to the verge of danger. Practically every man of business, banker, Chamber of Commerce, journalist, economist, politician, and statesman of knowledge and repute has been long agreed on this point. In these circumstances the placing of £15/20 millions of India's Gold Reserve in London is a gratuitous "tempting of Providence." Quite apart from the inconvenience that would be caused to London by a sudden withdrawal of this £15/20 millions owing to economic or political complications *in India*, there are two sets of complications conceivable *in England* that would

make it an impossibility for India to withdraw her Gold Reserve from London, no matter how badly India might require it; and those are (*a*) a panic in England arising out of an economic crisis, and (*b*) a financial crisis arising out of Great Britain being involved in war with a first-class Power. In either of these circumstances the sale of India's £17,000,000 worth of Gold Standard securities would be an impossibility. Even were the whole sum earmarked in gold at the Bank of England, there is no doubt that at a moment of grave national danger, Government would at once appropriate India's gold in London, and India would be left in the lurch for the time being. Were the sterling value of the rupee to collapse at such a moment, the difficulties of an already critical situation would be greatly accentuated.

(8) Which being so, I urge that it is far better, both in India and England's interests, to retain the bulk of the Gold Standard Reserve in gold in India. The existence of a £20,000,000 reserve of gold in India (in addition to the £7,000,000 in securities at Home), would not only guarantee the exchange value of the rupee, but it would, in time of grave national peril, be a source of strength to the whole Empire.

(9) In concluding this plea for the immediate observance of the recommendations of the Indian

Currency Committee in connection with the Gold Standard Reserve, I desire to draw attention to the India Office's Explanatory Memorandum of the East India Accounts and Estimates, 1911–12, issued for the information of Parliament in July, 1911, wherein the following statement appears (on page 9):—

> "GOLD STANDARD RESERVE.—In accordance with a recommendation made by the Indian Currency Committee of 1898–9, it was decided that, with effect from April 1st, 1900, . . . the Reserve should be held mainly in sterling securities." . . .

No such recommendation was ever made by the Indian Currency Committee. On the contrary, the Indian Currency Committee recommended that the reserve should be held "*in gold.*" This misrepresentation of fact (which makes it appear that the India Office has been acting in accordance with authority instead of in opposition to authority), should, I think, be specifically corrected in the next Explanatory Memorandum of the East India Accounts prepared for the information of Parliament.

CHAPTER XIV

THE PAPER CURRENCY RESERVE

. . . "The Paper Currency Reserve." . . .

(1) In one respect India's currency system is in advance of that of the United Kingdom in so far as it includes a State Paper Currency, very well managed by the Comptroller General and Head Commissioner of Paper Currency, Calcutta. Nearly £10,000,000 of this Paper Currency is supported by interest-bearing securities, the earnings from which flow into the State coffers—a marked improvement on the private bank note system of Great Britain. The total amount of Indian Currency Notes in circulation is now nearly seventy crores of rupees (i.e., nearly £44,000,000). There is no limit to the amount of issue, but the law provides that the total issue must be supported by a Reserve consisting of metal and securities. The maximum limit for the securities stands for the present at fourteen crores (£9,333,333). The Paper Cur-

rency is issued in the form of Promises to pay bearer on demand so many rupees. These paper promises or Currency Notes are legal tender in India, and are very popular in the larger cities and towns, and among all the best informed classes of the community.

(2) Although the Indian Paper Currency is purely an Indian concern, and is only issuable and encashable in India, a practice has been initiated in recent years of holding a part of the Reserve against the Indian Note issue in London. Such a practice—the practice of holding a country's paper currency reserve in some other country on the other side of the world—is, I believe, unprecedented in the history of any nation. Nor have any of the reasons advanced on behalf of Government in the case of the Indian Paper Currency Reserve convinced me that the holding of £7/10,000,000 of the Reserve in London, instead of in India, is other than a wasteful and thoroughly bad policy from the point of view of India.

(3) The principal official arguments used in favour of holding a large proportion of the Indian Paper Currency Reserve in London rather than India have been as under:—

(*a*) So long as gold is not in active circulation in India, what the presenter of Currency

Notes in India requires is not sovereigns, but rupees. By keeping gold ready in London (over £6,000,000 is "ready" at present at the Bank of England) the India Office can quickly buy silver to coin into rupees to be handed to the presenter of Currency Notes in India. (*Vide* the late Sir Edward Baker's speech on the Budget of 1906.)

(*b*) The India Office can easily appropriate and interchange the money with the general Treasury Balances and with the Gold Standard Reserve as may be found convenient from time to time. (Sir Edward Baker.)

(*c*) Investments in sterling securities in London are better for India than investment in Government of India Rupee Paper, because such securities are not necessarily influenced by the causes which might shake public confidence in the Indian Paper Currency. (*Vide* Mr. Baker's reply to Mr. Gwynne in the House of Commons in December, 1912.)

(*d*) The money . . . "would be readily available . . . to support exchange in case of a diminished demand for rupee currency," . . . (*Vide* Mr. Montagu's reply to

Mr. Touche in the House of Commons in August, 1912.)

(*e*) The money (i.e., £6,000,000 to £7,000,000) . . . "is not required in India for the payment of Notes, since a sufficient metallic reserve is held in India for that purpose." . . . (*Vide* Mr. Montagu's reply to Mr. Touche in the House of Commons in August, 1912.)

(4) These arguments have only to be stated in juxtaposition to each other to stand self-condemned. Apart from the fact that they are in a large measure mutually destructive, no one of them will bear examination. Thus, the idea of holding permanently £6,000,000 to £10,000,000 in London in case the India Office might at any moment suddenly and unexpectedly want to enlarge the Indian token currency by this amount, is preposterous. The silver coinage ought to be replenished regularly and continuously in small sums (so as not to inflate unduly the token currency or force up the silver market against Government); and the money for this purpose ought to be specially provided in London through special sales of Council Drafts. As a matter of fact, the Paper Currency Reserve lying in London *was not utilized for the recent large purchases of silver, although there was nearly* £7,000,000 *lying in*

London for this special purpose (according to Sir Edward Baker's ideas). These recent silver purchases were financed through the agency of Council Drafts wastefully sold at below specie (gold import) point.

(5) The facility-for-chopping-and-changing argument is perhaps the worst that could be employed in connection with a Paper Currency Reserve. The Indian Paper Currency Reserve has been created for a special object, namely, to encash the Indian Paper Currency *in India*; and nothing is more likely to shake confidence in this Currency than the knowledge that the specie necessary for its encashment is liable to be removed to the other side of the world and invested in securities that, in an economic crisis or great war in Europe, might prove absolutely unsaleable.

(6) In this connection, I venture to submit that the investment of any of the Indian Paper Currency Reserve in British securities in London is a mistake involving loss and possible danger to India. The Indian Paper Currency is, as I have said before, purely a local concern the benefits of which should be confined entirely to India and not shared with London financiers anxious to unload depreciating sterling securities. (I do not mean to imply that this was the Government of India's intention when investing in London;

but this is the practical effect of their so doing.) As far as I can make out, India stands to lose about a quarter of a million sterling through a portion of its Paper Currency Reserve being invested in London in sterling securities; and this loss is, in my opinion, likely to increase. Investment of the Indian Paper Currency Reserve up to the statutory limit should, I urge, be made only in Indian securities. In this connection the list of securities acceptable for the Paper Currency Reserve might very well be enlarged.

(7) The argument employed by the Under Secretary of State for India that if the Gold Standard Reserve proved inadequate for satisfying an adverse balance of trade, the portion of the Indian Paper Currency that is held in London might be appropriated to support exchange, is particularly vicious in that not only is it radically unsound, but it casts a suspicion on the efficacy of the Gold Standard Reserve. Apart from the extreme improbability of the Gold Standard Reserve breaking down (except in consequence of the inability of the India Office to realize its £16,000,000 worth of securities in a time of crisis), the fact that a portion of the Paper Currency Reserve was held in London instead of India would have no bearing on the situation at all. And for this reason. If the Paper Currency

Reserve consisted very largely of sovereigns, the sovereigns would be just as effective in supporting exchange in a grave emergency whether they were made available from the Treasuries in India or from the vaults of the Bank of England. Indeed, did the crisis happen to be a Western crisis rather than an Indian crisis, the gold would be far more valuable to India (and possibly to Great Britain) were it held in India rather than in the United Kingdom. The argument is, therefore, both worthless and misleading.

(8) Nor can any weight be attached to Mr. Montagu's other argument, or, rather, *ipse dixit*, that a sufficient metallic reserve is already maintained in India against the Paper Currency in circulation, and that £7,000,000 or so of the Reserve can therefore be removed with safety from India to London. The removal of this substantial portion of the Reserve from India merely on the arbitrary decision of the India Office that the money is not wanted in India, will not satisfy Indian critics. Not until the matter has been thoroughly weighed by all the leading banking and commercial interests in India can it be agreed that the proportion of the metallic reserve to the total issue is unnecessarily high, and that a sum of £7,000,000 may be invested. Even if this turn out to be the case, the investment

should, in India's interests, be made in India and not in London.

(9) I am strongly of opinion that as the Paper Currency is only issuable, legal tender, and encashable *in India*, the whole of the Paper Currency Reserve should be held *in India*. The administration of the Paper Currency and the Reserve there-against should be left entirely in the hands of the Government of India, because it is purely a local development in which London financial interests have no legitimate concern. I think that the Paper Currency Act should be so amended as to

(*a*) confine the holding of the Reserve to the Government Treasuries in India;

(*b*) restrict the investment of the Reserve to Indian securities, not necessarily Government Paper only; and

(*c*) permit the investment of a certain portion of the Reserve (or of the Gold Standard Reserve) temporarily—during the busy season in India—to relieve the seasonal pressure in the Indian money market.

CHAPTER XV

THE INTERESTS OF INDIA

. . . "Whether the existing practice in these matters is conducive to the interests of India". . .

(1) It is everywhere recognized that for the speedy economic development of India one thing in particular is everywhere needed—abundant supplies of cheap capital. This want can be supplied in part from within, and very largely from abroad. The Indian Currency Committee in recommending Open Gold Mints and a gold currency and standard for India (Section 54), freely recognized that . . . "with the growth of confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources" . . . (*vide* Section 70). The India Office in recent years by its lax management and perverse policy of

(*a*) encouraging the further use of rupees,
(*b*) checking the inflow of gold into India,
(*c*) weakening the Gold Standard Reserve,

has hindered the establishment of a gold currency in India, and delayed the growth of confidence, with the result that the inflow of large supplies of cheap capital from outside has been very slow in coming.

(2) By withdrawing substantial portions of India's Treasury Balances and Gold Standard and Paper Currency Reserves, the India Office has further destroyed public confidence in the official management of India's currency and finances. These withdrawals have amounted to the huge total of £40,000,000. Of this immense sum, nearly one-half might have been employed in India to the great advantage of the country. Thus, if the £3,000,000 of the Paper Currency Reserve, and the £17,000,000 of the Treasury Balances which were invested and lent out in London had been invested and lent out in India, as they might very well have been, then Indian interests would have benefited materially.

(3) By disposing of Council Drafts in unlimited quantities at rates well below specie (gold import) point, the India Office has failed to secure the best possible prices for the rupees that it has auctioned on India's behalf; and to the extent of the difference between the prices accepted and the prices obtainable, India has suffered a direct monetary loss.

(4) Moreover, the strange obsession under which the India Office appears to be labouring, namely, that sales of Council Drafts are, to quote Mr. Montagu's words in the House of Commons on the 30th July, 1912,

> "an indispensable factor of British Indian trade, and it would be difficult to imagine how British Indian trade could be carried on without them . . . trade would be brought practically to a standstill if these Bills were not issued"—

this amazing exposition of what the Under Secretary of State for India described as

> . . . "a well-known economic and financial practice," . . .

seem to indicate that Mr. Montagu and the Office of which he is the spokesman, are both unfamiliar with some of the elementary features of international finance. Needless to say, British Indian trade would continue to develop as rapidly as hitherto were Council Drafts abolished to-morrow and never heard of again. But that such ridiculous statements should be put forward officially in the House of Commons, and that the India Office should conduct its sales of Council Drafts as though it believed them to embody some profound economic truth, are the severest condemnation of India Office finance that has yet been made public.

(5) There can be little doubt that, quite apart from the material losses that India has suffered by the unsatisfactory management of her finances and currency in London in recent years, the wholly unnecessary removal of substantial portions of her Treasury Balances and monetary Reserves has seriously affected British prestige and influence in India (and possibly elsewhere) by giving grounds among the educated classes for the belief that, in financial matters, Indian interests are liable to be subordinated, if not sacrificed, at the suggestion or recommendation of powerful monetary interests in London. It is of the utmost importance that this impression should be removed.

CHAPTER XVI

THE FINANCIAL ORGANIZATION OF THE INDIA OFFICE

. . . "The suitability of the financial organization and procedure of the India Office" . . .

(1) The financial organization and procedure of the India Office in matters relating to Indian currency and finance appear to me to be in need of radical changes. The organization is defective, and the procedure obsolete and unsatisfactory.

(2) In the preceding parts of this Note various defects of PROCEDURE have been indicated. These may be summarized as under :—

(*a*) Grossly swollen cash balances have been held in London, amounting on one occasion to close upon £18,000,000. A floating balance of £3,000,000 should be sufficient for all legitimate purposes.

(*b*) The weekly *auction* of token coins, the supply of which rests wholly and solely in the hands of Government, belongs to the days of open silver mints, and is clearly obsolete. As well might the Royal Mint in London hold weekly auctions of sixpences, shillings, half-crowns, etc. Token currency should be

issued at one fixed rate in relation to the principal standard coin—the sovereign.

(c) The procedure which has transformed the Finance Department of the India Office into the principal Eastern Exchange Bank in London is unquestionably an unhealthy growth that should be cut away forthwith. It is no part of the Secretary of State's duties to play exchange banker for the benefit of either European buyers who desire to lay down funds economically in India for the easy purchase of Indian products, or certain sections of the export trading community in India who want to sell their bills to the local exchange banks at the lowest and most favourable rates for themselves. Council Drafts should be rigidly confined to the sum required for the Home Charges, and should be allotted to applicants *pro rata*, at a fixed rate of exchange—in India's interests, the highest possible.

(d) So, too, the procedure which has transformed the Secretary of State for India into one of the chief money-lenders in the world, should, in my opinion, be at once brought to an end. It is no part of the Secretary of State's functions to withdraw colossal sums of State money (of which he has not the slightest legitimate need), from India to London, only to find himself lending the money out to private borrowers in London in such profusion that—to quote Lord Swaythling's words in the House of Lords on the 14th November, 1912—"It was well known that so large were the amounts lent at one time this year by the India Council that there was a scarcity of the securities (which the India Office demanded against loans) among the approved borrowers, and the India Council therefore lent large sums to clearing banks at lower rates than they

could have lent them to the approved borrowers supposing that there had been more securities available." The whole of this business lends itself to the severest condemnation.

(e) The removal of a substantial portion of the Paper Currency Reserve and the bulk of the Gold Standard Reserve from India to London is a wholly wrong procedure, in my opinion. The investment of £18,000,000 of these Indian Reserves in London in British securities is a further step in the wrong direction, in my belief, and one calculated to cause very grave embarrassment to London as well as to India in the event of war, or of a serious financial or economic crisis.

(3) The suitability of the financial ORGANIZATION of the India Office to the work it is called upon to perform may be gauged to some extent by the way in which that work has been carried out. The public have no opportunity of surveying that work as a whole, but certain portions of it have recently come to light, and have caused amazement in many quarters. Thus:—

(x) *The Silver Purchasing Business.*—The delay in making the recent purchases of silver for replenishing the token coinage (everybody measured up the situation more accurately than the India Office, apparently), the unbusinesslike seven years' silver contract with the Bank of England, the grave breach of that contract at the instigation of Messrs. Samuel Montagu & Co., the great loss of prestige and of Indian money involved in the whole transaction, these things have greatly shaken public confidence

in the India Office's business capacity, and have created a very bad impression in India.

(y) *The Money-lending Business.*—This business appears to have been conducted on extraordinarily unbusinesslike lines. The India Office's loans to approved borrowers have been usually made for *periods of three to five weeks*, and this in spite of the fact that the India Office has frequently held £5/10,000,000 (sometimes more) in excess of all possible requirements. Instead of three to five weeks, many of the loans might have been made for three to five *years* without any likelihood of the money being required. (Indeed, some of the regular borrowers of India Office balances have been receiving loans almost continuously for *over five years!*) The only effect of giving the same borrowers the same money over and over again on loans for periods of three to five weeks appears to have been to have lost for India the higher rates of interest which loans for longer periods would have commanded, and to have made a present to the borrowers of long-period loans on short-period rates of interest. It is not surprising that in the scramble for the £14,000,000 of Indian money which the India Office at one time lent out to private borrowers, the supply of suitable securities in England ran short, and the India Office decided therefore to give several millions to the leading London bankers *on no security at all!* Borrowing £10,000,000 from the India Office at 2½ per cent. and depositing securities thereagainst that yielded 4½ per cent. would yield the lucky borrowers about £200,000 per annum—probably the most easily earned £200,000 per annum in the United Kingdom or anywhere else!

(z) *The Money Borrowing Business.*—This appears to

have been conducted on even stranger lines than the money-lending transactions. The larger the unrequired cash balance in London,—the greater the difficulty in finding borrowers in London to take all the spare millions sterling off the India Office's hands, the more determined the India Office seems to have been to preserve unbroken its regular habits of borrowing money in London, both temporarily and permanently, on behalf of the Government of India. Thus in 1910, with a cash balance some millions in excess of actual requirements, £5,000,000 was borrowed temporarily. In 1911, with an opening balance of £16,696,990, no less than £4,500,000 was borrowed temporarily, the closing balance for the year being raised to £18,390,013! In addition to the above temporary borrowings, large quantities of permanent debt were also incurred. It does not appear to have occurred to the India Office (or if the idea was considered, it must have been rejected), that some portion of the surplus accumulations of revenue of which the India Office held substantial balances in London, should be used for capital works in India, thus saving India the expense of a new sterling loan. The possession of enormous sums of ready cash in the till in London, for which no legitimate employment existed in the immediate or distant future, seems to have afforded no reason to the India Office for desisting from its customary procedure of borrowing, temporarily or permanently; and so practically simultaneous lending and borrowing has been carried on with no benefit to India that I have been able to discover, or to anybody else, except the borrowers and lenders themselves.

(4) Mr. J. M. Keynes, formerly of the India

Office, now Professor of Economics, Cambridge, and a Member of this Commission, has just published a book—*Indian Currency and Finance*—dealing with some of the matters now under consideration. The book was written before the appointment of this Commission, and is therefore a valuable expression of opinion by a well-informed and unbiassed exponent of economic theory, who in the nature of things, would hardly likely be extravagant in his criticisms of India Office doings. Professor Keynes unfortunately does not tell us what he thinks of a Government Department who holds a floating cash balance £10,000,000 to £15,000,000 in excess of its requirements; nor does he, when dealing with India's Reserves and Cash Balances, weigh the possible consequences to India of a crisis *in London* arising from (a) panic or (b) war *involving Great Britain*. For these reasons, his treatment of some portions of his subject appears to me defective. In many other matters, however, I find that Professor Keynes' views correspond exactly with mine, as may be seen from the following twenty brief expressions of opinion extracted from his book —

(1) "At first the Government of India did not fully understand the nature of the new system . . . several minor mistakes were made." . . . (Page 1.)

(2) "The Government of India have drifted into a system and have never set it forth plainly." . . . (Page 4.)

(3) "Prices have been rising much faster than is healthy." . . . (Page 100.)

(4) "The methods of Government are exceedingly complicated." . . . (Page 124.)

(5) "The Government of India's present system has no logical basis." (Page 172.)

(6) "The absence of appropriate arrangements constitutes a serious gap in the country's financial system." . . . (Page 180.)

(7) "Part of the (Paper Currency) Reserve should be lent out *in India.* Suitable security for this purpose would be Government of India securities (which would have indirectly the effect of increasing the market for Rupee Paper) and Bills of Exchange of the highest class." . . . (Page 60.)

(8) "This slight scare was more than sufficient to make Government lose their heads." . . . (Page 133.)

(9) "Having once started on a career of furious coinage they continued to do so with little regard to considerations of ordinary prudence." (Page 133.)

(10) "This time (1907–8) they (i.e., Government) got what they deserved." . . . (Page 133.)

(11) "They (Government) framed their policy as though a community consumed currency with the same steady appetite with which some communities consume beer." . . . (Page 134.)

(12) "Exchange could not have fallen so low (25th November, 1907) if the Government had made gold freely available in India." . . . (Page 136.)

(13) "So far from assisting the market, the Government were busy increasing the stringency by taking off the market, week by week, *rupees which for the*

moment they did not in the least want." . . . (Page 257.)

(14) "There are no high officials (in India) whose business it is to make finance the chief study of their life. The Financial Secretaryship is an incident in the career of a successful civilian." . . . . (Page 237.)

(15) "The statement made in answer to a question on this subject (Sale of Council Bills) in the House of Commons (April 30th, 1912) by the Parliamentary Under-Secretary was not quite correct." . . . (Page 114).

(16) "I do not think it has ever been thought out quite clearly (by the India Office) for what precise purposes these (sterling) reserves are held." . . . (Page 147).

(17) "By the end of 1912 they (the cash balances in London) had sunk again to *a more normal level.*" . . . (Page 129.)

(18) "Further accumulations (of Treasury Balances) in the hands of Government *ought to be put at the disposal of the Indian Money Market and* NOT CONVERTED INTO STERLING." . . . (Page 179.)

(19) "It is slightly shocking to discover that the Government broker, who is not even a whole time officer, and has a separate business of his own besides his official duties, is the highest paid official of Government with the sole exception of the Viceroy." . . . (Page 192.)

(20) "They (the India Office) renewed India Bills when they could have very well afforded to discharge them." . . . (Page 191.)

Professor Keynes throws the bulk of the blame on the Government of India, it will be noticed,

rather than on the India Office. I cannot concur with this view. The India Office has—wrongfully, in my opinion—taken the management of many of the details of the working of India's currency and finance into its own hands, and must therefore be held responsible for blunders in matters of detail as well as in matters of general policy.

(5) That I am not alone in India in holding views of the India Office's financial activities the reverse of flattering to the Department immediately concerned (the Bengal and Madras Chambers of Commerce are, I know, both satisfied that the management of India's finance and currency leaves nothing to be desired) may be gathered from a perusal of the files of the *Times of India* since 1910. That well-known newspaper, it is everywhere recognized, deals with all matters with great sobriety and restraint; whilst on the subjects of Indian finance and currency it is far better informed than any other newspaper in India. The publishers of the *Times of India* have just issued in book form under the style of *Indian Currency and Finance* a reprint of a series of editorial articles dealing with many phases of Indian currency and financial questions. The articles are most valuable and should, I urge, receive the careful attention of this Commission. The conclusions to which the *Times of India* has

come may be gathered from the following twenty comments which I have picked out here and there from the book :—

(1) " A species of dementia seems to have overtaken the administration of Indian financial affairs in London." (Vide page 51.)
(2) " Altogether indefensible." (Page 49.)
(3) " A reproach to England." (Page 39.)
(4) " The Council are unfit to discharge the important trust committed to their care." (Page 54.)
(5) " No such blundering and fateful incapacity has yet been disclosed as that now revealed." (Page 61.)
(6) " The greatest financial fiasco of modern times." (Page 64.)
(7) " A downright abuse of the system of effecting Government's Home remittances." (Page 86.)
(8) " A misuse of the credit of India." (Page 95.)
(9) " An intolerable and unfair burden on the public." (Page 96.)
(10) " A colossal blunder." (Page 97.)
(11) " It is impossible to conceive a more perverse system of currency finance." (Page 106.)
(12) " Government have gone out of their legitimate province." (Page 120.)
(13) " Great ineptitude has been shown." (Page 148.)
(14) " A gross injustice to the taxpayer." (Page 166.)
(15) " Finance gone crazy." (Page 54.)
(16) " Many irregularities and abuses are associated with the present system." (Page 209.)
(17) " A most unbusinesslike system and, in our judgment, indefensible." (Page 213.)
(18) " Impossible to imagine a more unbusinesslike procedure." (Page 224.)

(19) "The system as lately conducted is wasteful and expensive in many ways." (Page 150.)

(20) "A thorough revision of the system is called for." (Page 86.)

Comments of this character from the *Times of India*—one of the leading newspapers in the East—clearly indicate something "rotten in the state of Denmark."

(6) An organization that produces results such as those described in the preceding paragraphs obviously needs remodelling—lock, stock, and barrel. The Financial Department of the India Office and the Financial Committee of the Secretary of State for India's Council are both out of touch with modern economic thought and the current requirements of, and obligations to, modern India. The system which places the office management of matters financial and monetary relating to India in the almost arbitrary control of permanent officials of no great seniority who have never seen India, and whose sympathies are therefore mainly with their own immediate environment, calls for early reform. The more so as, in recent years, there has been an increasing tendency to over-rule and ignore the "man on the spot." Thus, the presence of two leading London bankers (with no personal knowledge of India) on the Finance Committee of the

Secretary of State's Council, one of them being Chairman of the Committee, *and the absence on that Committee of a single Indian or Anglo-Indian Banker or experienced European Official of the Government of India* has resulted, as might perhaps have been expected, in the currency and finances of India being managed in accordance with practices acceptable to London joint stock bankers, and mainly, if not wholly, for the benefit of the London money market. The result has been a serious jeopardizing of the reputation of British rule on its financial side, and a corresponding loss of prestige and influence for good which must now be recovered with the least possible delay.

(7) The equity of debiting the cost of the upkeep of the India Office to Indian revenues has been defended on the grounds that

> . . . "the India Office is mainly concerned with all sorts of banking and commercial activities, the management of debt, the sale of bills of exchange" . . . etc.[1]

It is essential, therefore, that if no further questions are to be raised regarding this debit to Indian revenues, that all the banking and commercial business, etc., undertaken by the India Office shall be conducted solely in Indian interests, and not mainly for the benefit of a section of the London money market.

[1] *Vide* Professor Leonard Alston's *Elements of Indian Taxation.*

CHAPTER XVII

RECOMMENDATIONS

(1) The recommendations of the Indian Currency Committee made fourteen years ago and accepted by the Secretary of State and the Government of India in 1899, should now, I consider, be carried out in their entirety. I urge that—

(*a*) The Right of Free Coinage should be restored to India, and an Open Gold Mint established at Bombay forthwith.

(*b*) British sovereigns should be coined at the Bombay Gold Mint. If this be absolutely impossible, Indian sovereigns of exactly the same size, weight, and fineness as British sovereigns should be issued.

(*c*) The Government of India should actively encourage the use of gold as currency, instructing their officers throughout the Continent accordingly, and discharging all obligations possible in gold.

(*d*) Beyond a small regular coinage to replace wear and tear and export out of India, no fresh rupees should be coined until the proportion of gold in the currency is found to exceed the requirements of the public.

(*e*) Profits on the coinage of silver and other coins to be kept quite apart *in gold* and carried to a special Gold Reserve. The Gold Reserve to be retained mostly in India, and only a minor portion to be invested—in *Indian* securities.

(*f*) Sterling borrowing to be avoided as far as possible.

(2) In order that a *pucca* gold currency system of the British type (which Professor Dunning MacLeod before the Indian Currency Committee in 1899 declared to be the best in the world), may be established in India with as little delay and as effectively as possible, I further urge that—

(*g*) Council Drafts be strictly restricted to the sums required to meet the Home Charges, and additions to the token coinage.

(*h*) Council Drafts be drawn at one uniform rate. They are simply sales in London of sovereigns or rupees delivered in In-

dia, and the cost to the public should be only a shade below the actual expense of shipping sovereigns to India—in other words, a trifle below specie point. For the India Office to accept any lower rate is an altogether needless sacrifice of Indian revenue.

(*i*) The Treasuries at Delhi and Karachi be included with those of Calcutta, Bombay, and Madras as Treasuries on which Council Drafts can be drawn.

(3) The above recommendations, if carried out in their entirety (and *all* but one are essential), will ensure the establishment in India of a first-class gold monetary system, and tend to raise India's status in the eyes of the world, and so facilitate the creation and inflow of cheap capital so necessary for the country's advancement. As soon as sovereigns are everywhere in circulation, and £30,000,000 in gold is held in the Paper Currency Reserve, the Gold Standard Reserve might be abolished and the money therein employed on reproductive work.

(4) With regard to the location and management of the general cash balances and reserves, I urge that—

(*j*) An effort be made to keep the Government of India's floating balances down to

£10,000,000, of which about £3,000,000 might be kept in London.

(*k*) As much of the floating balances as can be spared, be placed at the service of the Indian public through the agency of the Presidency Banks and the Indian money market.

(*l*) The Gold Standard Reserve ought to be held entirely in India. As the realization of £16,000,000 worth of securities would no doubt somewhat inconvenience the London money market, I suggest that only £9,000,000 be disposed of, gradually, and the proceeds shipped to India *in gold*, the remaining £7,000,000 now lying in securities, being retained in securities, in London.

(*m*) The Paper Currency Reserve, which is purely an Indian concern, should be kept entirely in India; and so far as the Reserve be invested in securities, such investments should be made in *Indian* securities.

(5) The above recommendations, if carried out in full, will add greatly to India's financial strength, increasing confidence in the sterling value of the rupee, giving scope for the investment of Indian savings in Government securities, and

affording cheap capital for temporary use of the Indian money market in financing the crops, etc.[1]

(6) With the object of adapting the financial organization of the India Office more closely to present-day requirements, I would suggest that the Finance Committee of the Secretary of State for India's Council should always include one senior Civilian Officer of at least twenty years' service in India and some experience of Indian financial matters; one Anglo-Indian banker of Calcutta or Bombay experience, and one (and only one) leading London banker. With the work of the Finance Committee confined to its proper dimensions and scope (as indicated in paragraphs, 1, 2, and 4 above), a Finance Committee of *three* should be sufficient to keep the permanent officials of the Finance Department of the India Office on the proper lines.

(7) In concluding this Note, I desire to point out that most of the developments at the India Office to which objections have been taken in India and in Parliament have arisen during the last six or seven years—since the policy of reducing the Indian Civilian element in the India Office and on the Finance Committee of the Secretary of State's Council has been put into operation.

[1] See also my *Britain's Dilemma*, published by Messrs. P. S. King and Son, Westminster, London, S.W.

Autocracy in India no doubt has its defects, but over twenty years' experience of India has convinced me that autocracy practised by men on the spot, closely familiar with the problems which confront them, exhibits advantages over autocracy ruling at the India Office and guided by men but few of whom have any personal knowledge of India and its peoples. In the case of the Finance Department, the absence of a senior experienced Anglo-Indian Official from the Finance Committee of the Secretary of State for India's Council has synchronized with a period of currency and financial management that, from the point of view of India, can only be described as unsatisfactory in the extreme. India's monetary reserves and Treasury Balances have been raided in a way, and to an extent, unheard of during the whole history of Britain's connexion with her great Eastern Dependency. The consequences have been a blow to Britain's reputation for fairplay in matters financial, the effects of which it will take some time and care to remove. Whether these mishaps would have been avoided had the Finance Committee included an experienced Anglo-Indian Civilian and a Bombay or Calcutta Banker it is impossible to say. Certainly the currency and financial management could hardly have been more unsatisfactory.

(8) The conclusion to which I am forced, therefore, is that in reorganizing the financial machinery of the Indian office, the policy of removing or excluding the influence of the experienced Indian official should be seriously reconsidered. With no axe of any kind to grind, and accustomed by the duties of a lifetime to hold the scales evenly between many conflicting interests, the senior Indian Civilian can bring an experience and influence to bear invaluable to those in England responsible for the upright and progressive administration of India. And if, with the experienced Anglo-Indian administrator, be associated a leading London Banker, and a senior Banker from Bombay or Calcutta possessing an intimate knowledge of the customs and requirements of the most advanced and go-ahead sections of the Indian commercial and financial communities, a FINANCE COMMITTEE OF THREE can be formed who will be able to give to the Secretary of State for India the best possible advice on all matters relating to the management of India's currency and finances.

(9) Lastly, I would urge that the Government of India be allowed much greater freedom of action in matters of purely local concern than has recently been the case in connexion with the management of India's finances and the develop-

ment of India's currency. The Secretary of State for India in Council having laid down the general lines of policy that should guide the Government of India, the Governor-General in Council should, I submit, be allowed the fullest discretion in the actual carrying out of that policy. The subversion of this principle and the uncalled for and unnecessary exercise of authority by the India Office, appear to me largely to explain the circumstances that have led up to the present inquiry. Only by giving the Governor-General in Council the utmost authority and power, consistent with a due observance of the broad principles of government laid down by Parliament through the Secretary of State, can we hope successfully to administer and carry forward the further development of the Continent of India.

Part IV

ADVANCE, INDIA!

CHAPTER XVIII

LONDON'S POSITION

THERE are several directions from which the gold necessary for the building up of a gold currency for India can come,—from London, Australia and Egypt (in the form of sovereigns), from London (in polished bars), from the mines of India, Australia, and South Africa (in the form of bullion), and from the hoards of the peoples of India (in the form of ornaments, bars, etc.). India can therefore easily acquire gold if she has the means of paying for it.

The question has been asked in India,—What will be the cost of a gold currency, and how is this cost to be borne? Even in England the assertion has been made that a gold currency is an expensive luxury which a poor country like India cannot afford. In the first place, India is not a poor country. It is the wealthiest division of the Empire outside the United Kingdom, and can therefore more easily afford a good metallic

currency than, say, Canada, or Australia, or South Africa. In the second place, and quite apart from the question of the wealth of India, a gold currency will not cost India a *pie* more than a silver currency, as can very easily be explained. The position of India in this connexion is as follows:—India gives annually to the world of her valuable agricultural, mineral and manufactured products far more than the world gives to her in return. Last year the balance due to India was over twenty millions sterling. How shall this balance be paid to India? In gold, or silver, or copper, or cowries, or how? If India asks for this balance to be paid to her in pice and cowries, no doubt ship-loads of copper and shells can be sent to her. If she prefers silver, the bankers and bullion dealers of London will be only too delighted to meet her wishes. All the same, the world's monetary conditions being as they are, there can be no doubt that India ought in her own interests to insist on getting that balance in gold, and not be misled into accepting it in a metal the value of which is yearly decreasing, and the free use of which as money has been abandoned by all the most advanced countries in the world. Obviously, it will not cost India a penny more to receive what is due to her in gold rather than in silver,

The fears of certain of London's bankers and others that there is not sufficient gold in the world to "go round," and that if India be permitted to receive in gold the money fairly due to her, a monetary crisis in London will be precipitated, are based on an extraordinary misapprehension of the real state of affairs. That the financial situation in London is delicate to a degree bordering on danger, is beyond question. But this situation is entirely London's own making, and has not arisen from either a scarcity of gold, or the natural desire of India to be paid what is due to her in gold, but simply from a disinclination on the part of London's bankers and financiers to put their hands in their pockets and pay the expense of retaining a larger reserve of gold in London. Never before in the whole of the world's history have the supplies of new gold from the mines been so enormous, or the stocks of gold held by all countries *except Great Britain*, so heavy. What is now happening is exactly what every student of monetary history expects to happen. Stated in the briefest possible form the situation is this:—

(1) The world's output of new gold in recent years has been so enormous (it is now close upon £100,000,000 per annum) that

(2) a great inducement to credit-spinning has

come into existence; with the result that

(3) money is depreciating,—the sovereign is shrinking,—prices are everywhere rising, and commercial enterprises all the world over are being excessively stimulated. In consequence

(4) the demands for new capital have altogether outrun the supply for the time being, and

(5) the bankers and financiers of Europe in their efforts to meet these heavy demands *at the minimum cost to themselves* have erected such gigantic superstructures of credit on such diminutive gold bases that widespread anxiety is beginning to be felt as to the soundness of the position.

(6) The general economic situation has been further complicated by the disturbed political situation in South Eastern Europe, and the consequent hoarding of gold that has re-commenced on the Continent.

If we may judge by what has happened in the past, nothing short of a panic and financial crisis will effectively check the ineradicable desire of a large proportion of the human family to over-do

everything. Fortunately, the great bankers of London are the last people in the world to lose their heads, and there is every hope, therefore, that the present critical situation will be met wisely.

It is not wisdom, however, to check the flow of gold to India as the India Office (under the guidance of two London bankers) has been doing during the last few years. This is sheer folly. Adding millions after millions of silver money to the already dangerously swollen torrent of the world's gold currencies (as the India Office has done), is simply to encourage still more credit-spinning,—still more money depreciation,—still more price inflation,—still more demands for capital,—still more speculation,—till at last the pace *must* become so uncontrollable that a smash will be inevitable.

The wise course is to draw in the reins and check the runaways. Already, this is being done; and London is now inundated with schemes from every corner of the globe for which finance houses are sternly declining to produce a single sovereign of capital. This is the first step in the right direction. But is this sufficient?

I say, unhesitatingly, No. London's bankers must face the situation created by the deluge of gold and the resultant world's competition for

capital at any price, and must substantially increase their gold reserves, just as every other country is doing. This involves (1) absolute freedom to India to withdraw whatever gold she can pay for, and (2) a long-continued rise in the level of London discounts,—forms of pressure that every potential runaway in the United Kingdom will of course resent and resist.

Yet these checks are essential if the world is to be saved from the disaster of a great financial crisis in Europe and America. In ten years the leading countries of America and Europe *acquired and retained in their central banks and treasuries* nearly £400,000,000 in gold. Great Britain alone has elected to go on without adding a single million to her metallic reserves, so far as the public know. Not only that. London has at the same time actively hindered India in the work of acquiring gold for her currency and reserves. It is difficult to imagine a more short-sighted, dog-in-the-manger policy.

Momentarily, of course, London's bankers have gained, and that, too, in spite of the inevitable depreciation of "gilt-edged" securities, and the consequent writing down of such securities in the banks' books. Here is a list of the dividends distributed by eight of the leading London Banks during the last three years:—

Bank.	1910.	1911.	1912.
	per cent.	per cent.	per cent
The London County and Westminster Bank	20	21¼	21¼
Parrs' Bank	20	21	21
London City and Midland	18	18	20[1]
London and Provincial Bank	18	18	19
Lloyds Bank	18½	18½	18½
London and South-Western Bank	16	17	17
Union of London and Smith's Bank	11½	12	12
London Joint Stock Bank	10	10⅓	10⅔

With these figures available, India is hardly likely to be impressed by London Bankers' cries of what may happen to them if India is permitted to import gold freely. London discounts will probably have to be raised,—that goes without saying; and London bankers' earnings may be reduced a trifle in consequence (though the check to speculative enterprise that would follow a rise in discounts would be likely to prevent any further decline in the values of "gilt-edged" securities, and would in this way relieve bankers of the necessity of any further writing down of consols, etc. This would in some measure compensate bankers).

In the meantime, India, unfettered by constant hindrances to her monetary developments,

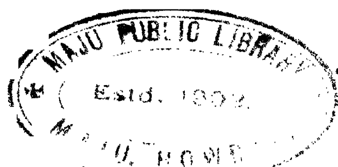
[1] Including a 2 per cent. bonus.

would freely import and use gold, and coins of gold, as her chief currency weapons and monetary reserves. The holding of a large accumulation of sovereigns in India in the Paper Currency Reserve in addition to the private reserves held by the leading banks and in the hands of India's millions, would be a source of immense strength to the Government of India and to the Empire generally. The increase of respect and confidence with which the world would regard India's monetary arrangements, would encourage the accumulation and inflow of large supplies of cheap capital in, and into, India. And with an abundance of cheap capital, India's economic development would proceed even more rapidly than at present,—to the immeasurable benefit of India herself, and of all who had dealings with her.

In such circumstances, can the policy of attempting to withhold gold from India, even temporarily, be defended—in India's interests, or even in London's interests? I submit, not. Clearly, it will be good for India to build up her currency on a gold basis and with coins of gold—good for our Eastern Dependency, and good for the rest of the Empire—Great Britain included.

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SOME PRESS OPINIONS.

"Clearly envisages the present dilemma."—*St. James' Gazette.*

"The author treats the problem in his usual clear and instructive manner."—*The Capitalist.*

"The book is well worth reading and its arguements are eminently deserving of earnest attention."—*The Dundee Advertiser.*

"Mr. Webb states his case trenchantly against the financial methods of the India Office."—*The Athenæum.*

"A vigorous criticism of England's currency policy in India since 1898 and a plea for the opening of Mints in India to the free coinage of gold."—*The American Economic Review.*

"A criticism of the financial methods of the India Office—The author advocates the adoption of the Indian Currency Committee's Report of 1899."—*Journal of the Royal Statistical Society.*

"The author is to be congratulated upon his bold and critical survey of the present disturbed industrial situation and his endeavour to remedy the evil by getting at its root."—*The Financial Times.*

"There has been not a little dissatisfaction because India has not imitated England in admitting the free coinage of gold, and of the reasons for this dissatisfaction, Mr. Webb is one of the ablest exponents."—*The Manchester Guardian.*

"Mr. Webb has produced a profound and luminous exposition of the Indian Currency Question. . . . We are surprised that not one of our many astute financiers has bearded the Indian Government in Parliament."—*The Yorkshire Factory Times.*

"No doubt there is a widespread belief that the plethora of gold is a contributing factor in the fall of Consols, but readers who would know what is the basis for this belief, and how rational the belief is, may be recommended to read Mr. Webb's book—*Britain's Dilemma.*"—*The Western Daily Press.*

"In the hands of agitators and malcontents such a weapon (as Mr. Webb's *Britain's Dilemma*) may do incalculable mischief. It is of great importance that adequate attention to such an indictment should be given not in India only; Mr. Webb's book ought to be publicly answered in this country."—*The Academy.*

"Après avoir établi avec une précision lapidaire les bases du dilemme, il en discute les divers aspects sur le marché londonien et sur le marché indien, il expose les thèses soutenues dans la presse et dans la littérature économique. Dans cet intéressant volume se traduit la maitrise d'un penseur doublé d'un practicien."—*Journal des Débats.*

"The difficulty here dealt with is the rise in prices with consequent unrest caused by the immense output of gold. Mr. Webb, an able economist and vigorous writer, charges the India Office with misapplying the cash balances of the Indian Government, mishandling portions of India's Gold Standard Reserve and Paper Currency Reserve, and refusing India a free mint, as recommended by the Indian Currency Committee's Report of 1899."—*The Times.*

"The meaning of certain delicate questions recently put and answered in the House of Commons concerning Indian Finance is made clear by the very remarkable book which Mr. Webb has produced . . . clearly and vigorously written, and has the rare merit of dealing with one of the mysteries of high finance in a fashion that the average reader can readily understand."—*The Birmingham Daily Post.*

SOME INDIAN PRESS OPINIONS.

"Mr. Webb launches a heavy indictment against the present Home Government and its financial advisers for its policy regarding India's monetary reserves—an indictment so specific and uncompromising that if it be not answered it will be deemed by the public unanswerable."—*The Sind Gazette.*

"Mr. Webb has at his back almost the whole body of informed Indian opinion in his protest against the policy of withholding from India her right to utilise her gold and her surplus cash balances in supporting her trade and industries and in placing her currency on an automatic and stable basis."—*The Times of India.*

"This book is a very valuable and comprehensive work, and takes its place as the most authoritative unofficial survey of the currency problem that has yet been published."—*The Madras Times.*

"Whatever the value of Mr. Webb's assertions—and on the whole they seem to us well-founded,—they deserve very earnest and careful consideration at the hands of all interested in the economic progress of this country."—*The Hindustan Review.*

The attack on the India Office finance made in the House of Commons is threefold—firstly, the size and disposition of the cash balances raised by Mr. Webb's book *Britain's Dilemma* supported by Colonel Yate in the Indian Budget debate; secondly, the employment of Messrs. Montagu and Company for the purchase of silver; and, thirdly, the charge of corruption in connection with Indian loans. Colonel Yate joined the heckling on the second charge, but no wise associated himself with the third. This is the monopoly of the *Pall Mall Gazette.*—Special cable to *The Pioneer*, dated London, 31st October, 1912.